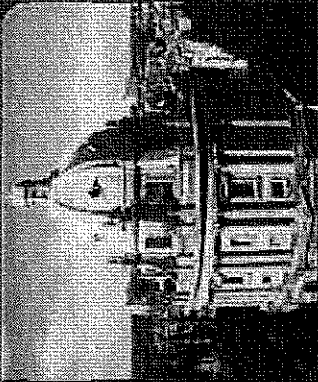


Appendix 20 – Oxford Economics House Price Report



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House Price Prospects

UK
London

Stratford; Elephant & Castle; and Greenwich

Quarterly Report for Lend Lease

March 2012



Snapshot of key messages - economy

- Loss of momentum in global economic recovery has continued and gathered pace
- Eurozone economy likely to be in recession now as had been predicted
- UK GDP contracted in 2011 Q4 - a fall in 2012 Q4 is predicted - this would signal a return to technical recession - but in the baseline scenario expect this to be mild and short-lived
- UK GDP growth revised down again for 2012 and 2013: London GDP growth outlook also downgraded but its economy still forecast to outperform the UK average
- Baseline scenario assumes Euro remains intact and a financial crisis is avoided
- But probability of the baseline scenario has fallen to 40%; likelihood of disorderly Eurozone debt default has risen to 30% - probability of worst case Eurozone break up scenario is 10%
- UK economy is at high risk from downside Eurozone scenarios given trade linkages and spillover impacts on the UK banking system
- Under a Eurozone break up scenario UK GDP falls by 1.9% in 2012 and 1.4% in 2013



Snapshot of key messages – housing market

- UK housing market still in second phase of a 'double dip', but second phase characterised more by sustained and moderate falls (as opposed to short, sharp falls in house prices)
- Contrasting strength of London housing market versus rest of UK even clearer in latest data – posting modest price rises as opposed to falls elsewhere
- UK house prices forecast to continue to fall moderately up until 2014, even as the economy returns to growth – though UK house prices forecast to be only 1.3% lower in 2014 compared to 2011. Overall Oxford Economics is now marginally more pessimistic about UK housing market prospects compared to the previous report
- London house price outlook remains stronger than UK average with moderate growth forecast – London house prices forecast to be 3.2% higher in 2014 compared to 2011
- Under Eurozone break up scenario, UK house prices forecast to be 20% lower in 2014 compared to 2011; London house prices 16% lower in 2014 compared to 2011 – a more eye-catching impact than GDP impact

Outline

- Report highlights
- Economy update
- UK house price central baseline outlook
- Greater London house price central baseline outlook
- London borough (Stratford, Elephant & Castle and Greenwich) house price central baseline outlook
- Macroeconomic upside & downside economy and house price scenarios
- Downside and upside risks to house price outlooks

Report highlights – weakening economic growth

- The loss of momentum in the world's economic recovery became even clearer in the latest data towards the end of 2011 and into 2012. Although the US economy continues to perform strongly, data elsewhere is less positive. World trade growth has fallen sharply and even growth in emerging economies is starting to slow.
- The Eurozone economy is likely to be in recession now, as predicted, which will be confirmed by 2012 Q1 data.
- UK GDP fell in 2011 Q4. A fall in 2012 Q1 is predicted which would signal a return to 'technical' recession (although in the baseline scenario, the UK recession is expected to be mild and short-lived, with the economy returning to growth in 2012 H2).
- The UK's growth forecast for 2012 /2013 has been revised down again and significantly – by almost 1 percentage point in each year – to 0.3% in 2012 and 1.8% in 2013.
- London's growth forecast has been revised down by a similar magnitude but importantly its economy is still forecast to grow faster than the UK economy as a whole and for the same reasons outlined in previous reports.



Report highlights – stagnant UK housing market until 2014

- Against a backdrop of weakening economic growth, the UK housing market remains in the second phase of a 'double dip'. According to the Nationwide and Halifax, UK house prices have fallen in 5 out of the last 6 quarters, stretching back to mid-2010, although the magnitude of falls have been relatively moderate.
- UK house prices are forecast to continue to fall up until 2014, even as the economy returns to growth in H2 2012. It will not be until 2015 before a more robust housing market recovery starts to gather momentum, and 2016 before UK house prices recover to peak levels.
- Though expected price falls are moderate in the baseline scenario - UK house prices are forecast to be only 1.3% lower in 2014 compared to 2011.
- Still, Oxford Economics has overall become slightly more pessimistic about UK housing market prospects compared to the previous report.
- This is a result of: the weaker economic outlook, the sluggish pace of private sector job creation, and recent news of mortgage lenders starting to raise interest rates even as the Bank of England's base rate remains unchanged.



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Report highlights – a more buoyant London housing market

- London's housing market, in contrast to the UK average and other regions, is showing more signs of resilience. House prices in London now appear to be doing better than holding firm, as suggested in the previous report.
- Each of the Halifax, Nationwide and DCLG are reporting house price growth for London during and towards the end of 2011.
- Further house price growth is not limited to central London or prime properties – DCLG is reporting house price growth in outer London boroughs in 2011 Q3. House prices in each of Newham (where Stratford is located), Southwark (where Elephant & Castle is located) and Greenwich also increased in 2011 Q2 and 2011 Q3 according to DCLG.
- In the latest forecasts, London's house price outlook remains stronger than the UK average with moderate growth predicted – London house prices are forecast to be 3.2% higher in 2014 compared to 2011 (and compared to a 1.3% fall for the UK).
- Although house price growth in London in 2012 and 2013 is forecast to be only very moderate and weaker than in 2010 and 2011.



Report highlights – probability of a downside scenario higher

- The probability Oxford Economics gives to its baseline scenario outlook remains very low by historic standards (40%) and lower than the previous report (45%). Downside risks have intensified, with the probability of a disorderly Eurozone debt default rising from 20% to 30%.
- The worst case sub-scenario within the Eurozone debt default scenario – a breakup of the Eurozone – now has a probability as high as 10%. In this scenario, Greece, Portugal, Ireland, Italy and Spain leave the euro in 2012 and establish new national currencies. The five exiting countries suffer a significant decline in GDP, but there are major knock-on impacts for remaining Eurozone countries and the wider global economy, including the UK economy.
- Under the Eurozone break up scenario, UK house prices are forecast to be 20% lower in 2014 compared to 2011 (compared to 1.3% lower in the baseline). London house prices are forecast to be 16% lower in 2014 compared to 2011.
- Developments in the Eurozone remain critical to UK and London economic and housing market prospects.

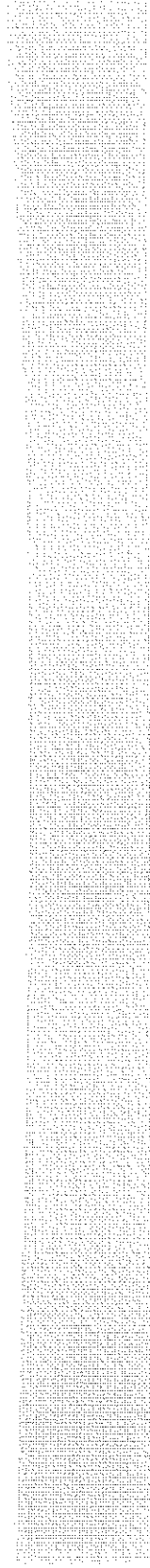


Report highlights – understanding the Greek deal

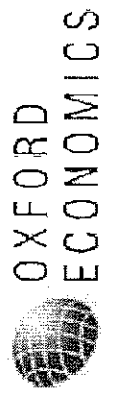
- The new Greek financing deal agreed in February has not fundamentally changed Oxford Economics' view on the Eurozone
- Much of the detail had already largely been pre-announced and the signing of the deal was a prerequisite for the baseline scenario that Greece stays in the Eurozone and a financial crisis is averted
- Close examination of the details suggests the deal has only a slim chance of success
- For example the assumptions underlying the forecasts of the debt/GDP ratio look very optimistic in terms of growth, fiscal adjustment and the success of the planned debt swap
- As such the risk of Greece being forced out of the euro remains significant
- Probably the best that can be said of the new deal is that it may have bought a little extra time to build an effective financial 'firewall' to protect other peripheral Eurozone states in the event of a collapse in Greece – but even this outcome is in doubt



UK, London and borough house price macro scenario outlooks



Economy update



Global and UK economy update and outlook

- The loss of momentum in the world's economic recovery has become clearer in the latest data towards the end of 2011 and into 2012
- While the US economy continues to perform strongly, data elsewhere is less positive - world trade growth has fallen sharply and even growth in emergers is starting to slow
- The Eurozone economy is likely to be in recession now as predicted, which will be confirmed by 2012 Q1 data in the coming weeks and months
- UK GDP fell in 2011 Q4, again as predicted in the previous report
- A fall in UK GDP in 2012 Q1 is also predicted - this would signal a return to 'technical' recession for the UK (although it is expected to be mild and short-lived, with the economy returning to growth in 2012 H2)
- UK baseline GDP growth in 2012 and 2013 has been revised down from 1.1% and 2.6% in the last report, to 0.3% and 1.8% respectively. Oxford Economics has also downgraded its growth outlooks for other economies, notably Eurozone economies



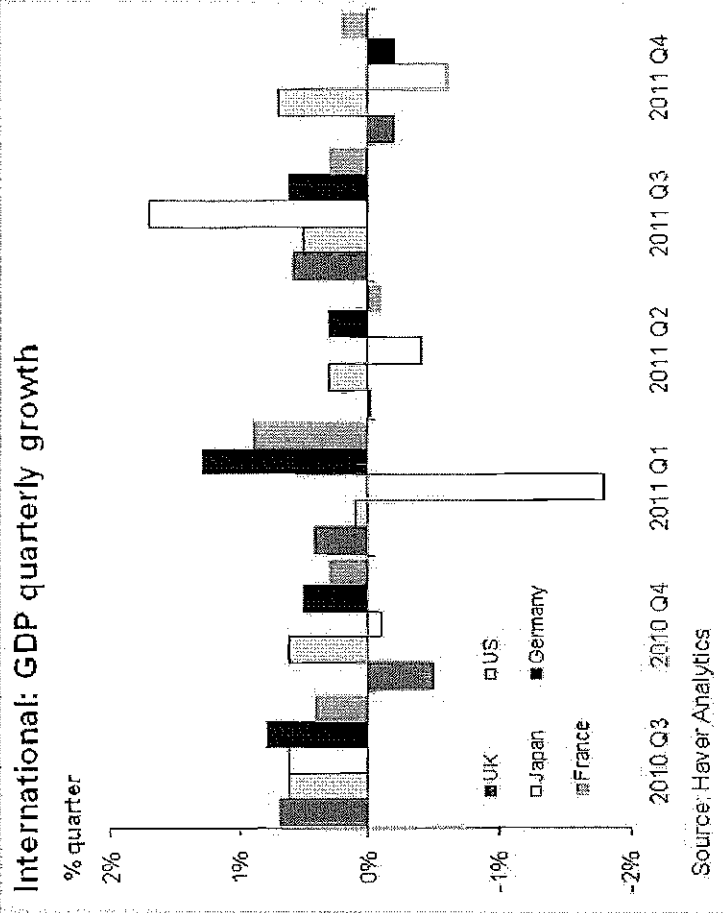
Global economy update – why has global growth weakened?

- Eurozone financial crisis
 - Severe fiscal austerity across the Eurozone
 - World trade effects
 - Deepening financial credit crunch spreading to other regions
 - Global confidence effects
- But also significant policy tightening elsewhere
 - Government spending cuts in the US
 - Monetary policy tightening in emerging markets
 - High oil and commodity prices

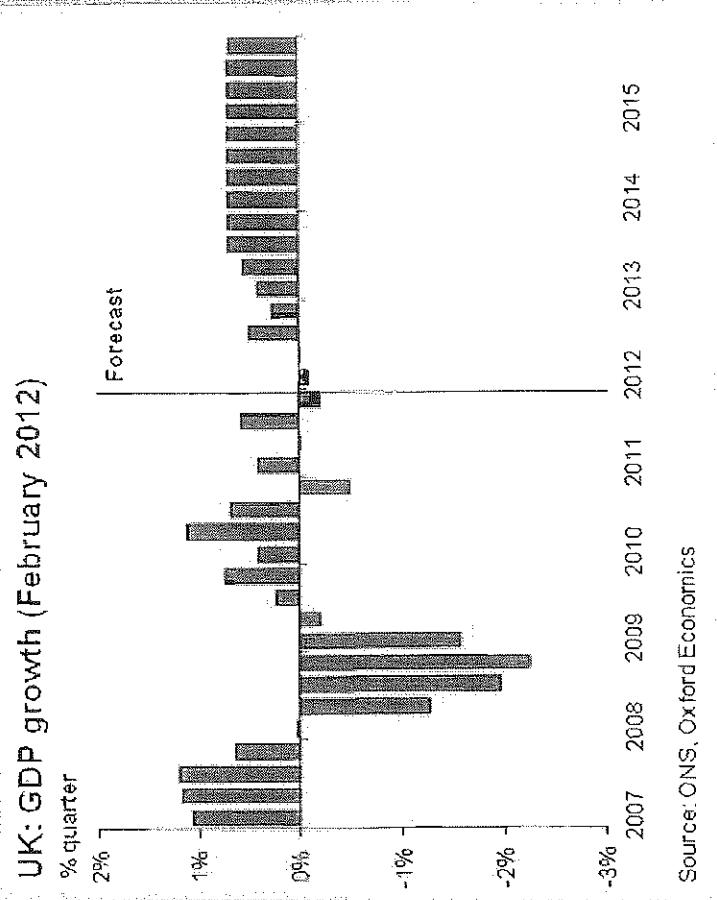
UK economy update – baseline scenario assumptions

- The majority of the report focuses on the baseline scenario outlooks for the UK / London economies and housing markets (alternative scenarios are presented later)
- For clarity it is therefore useful to highlight the key underpinning assumptions of the baseline scenario upfront to aid understanding
- The key baseline underpinning assumptions include
 - A credible solution is found to the Eurozone crisis and the euro remains intact (e.g. no country is forced to exit the euro)
 - As a result stability in financial markets is restored and confidence recovers
 - But the global recovery remains constrained overall by a slow 'thaw' in credit conditions
 - In the UK the Bank of England's base interest rate remains at 0.5% until late 2013

Global economy update – quarterly GDP growth

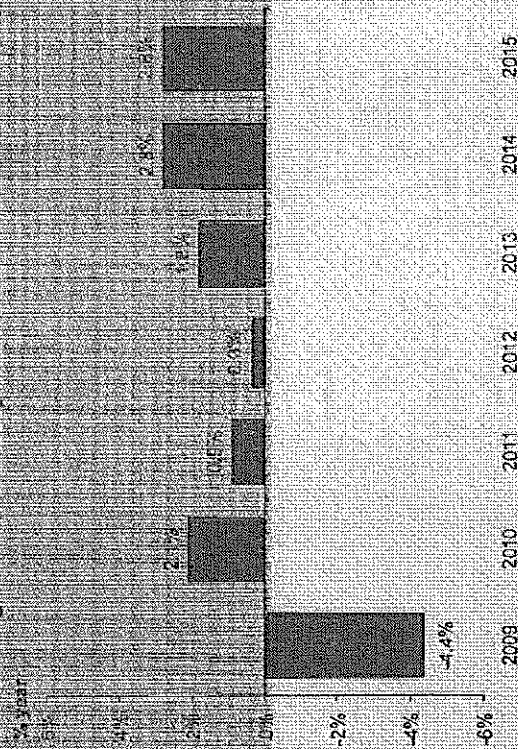


UK economy update – quarterly GDP growth and outlook



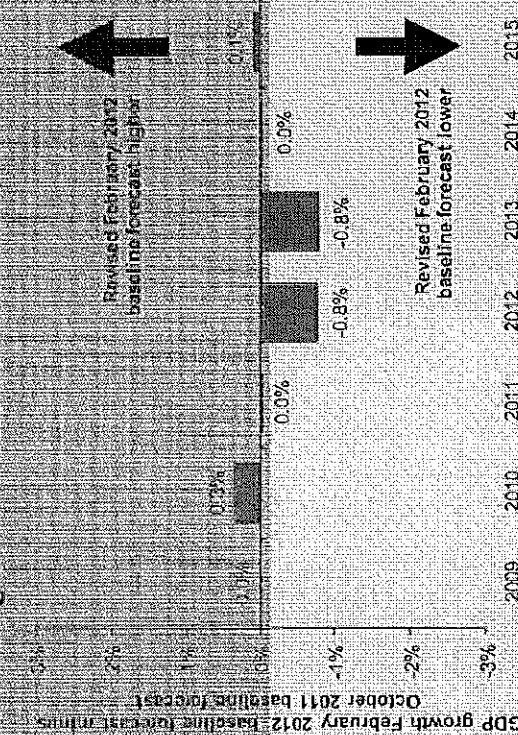
UK GDP growth baseline outlook

UK GDP growth (February 2012)



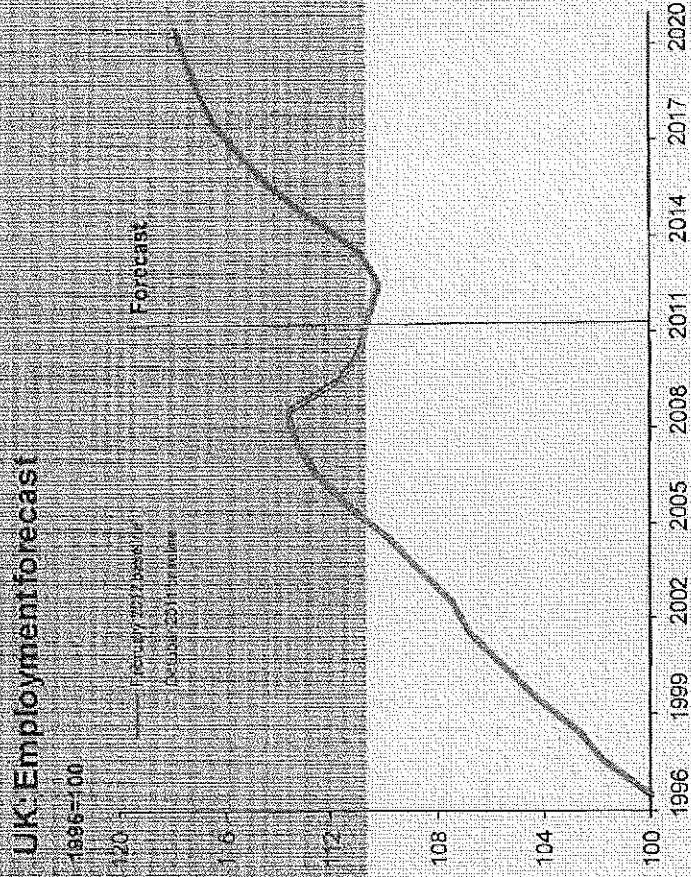
Source: Oxford Economics

UK GDP growth - difference from October 2011

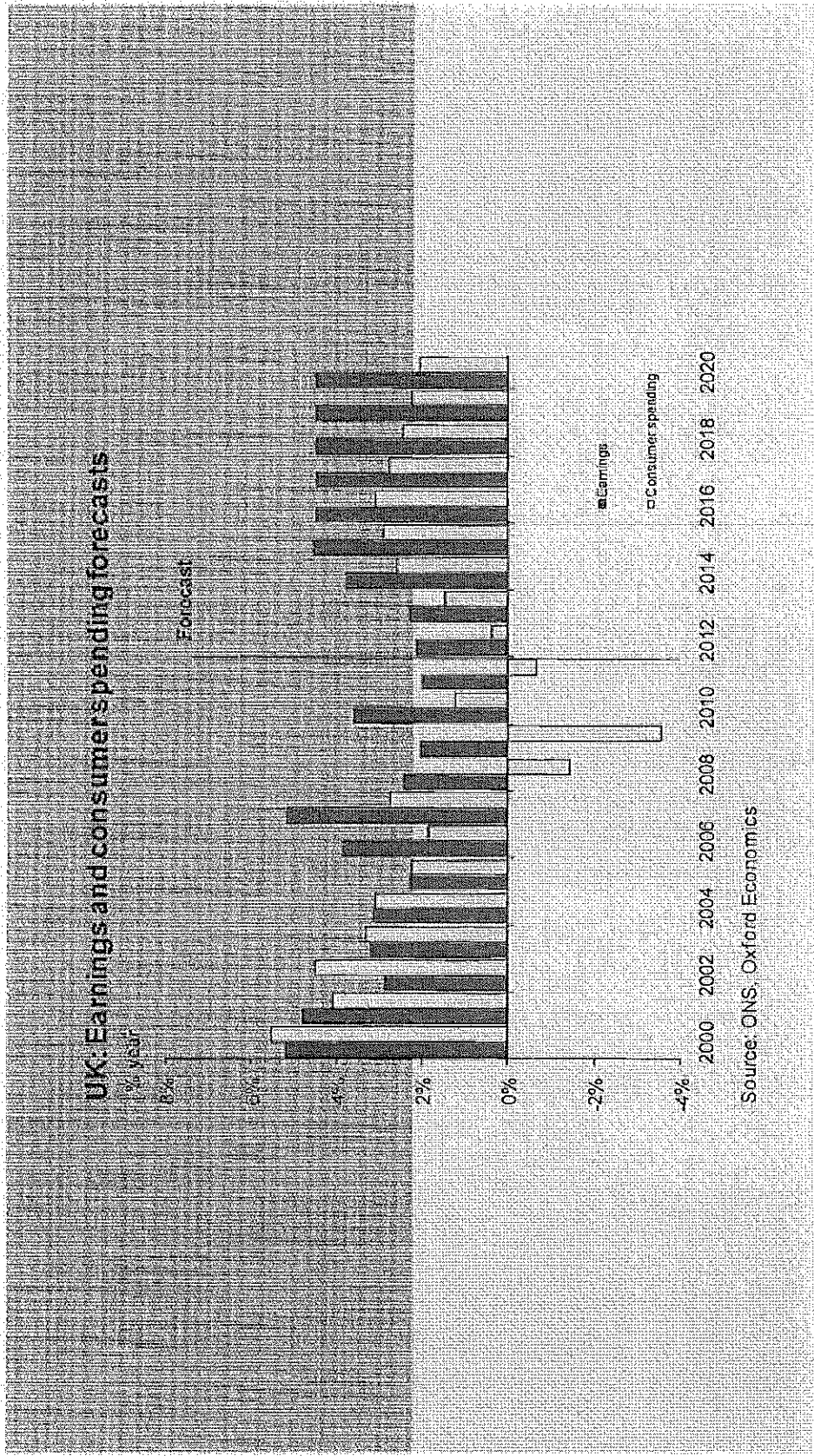


Source: Oxford Economics

UK employment baseline outlook



UK earnings and consumer spending baseline outlook

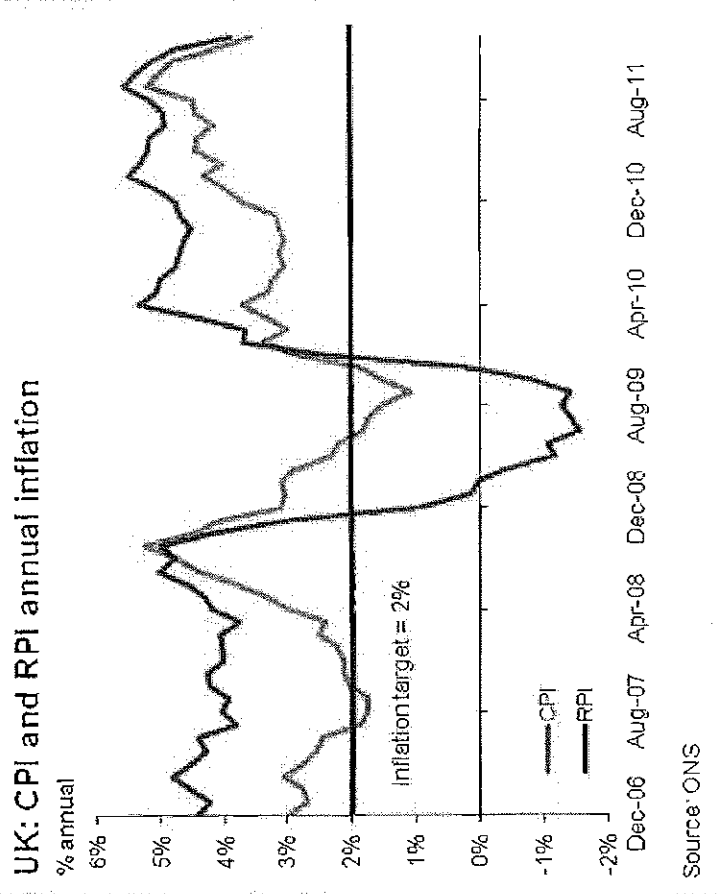


UK economy update – inflation and interest rate

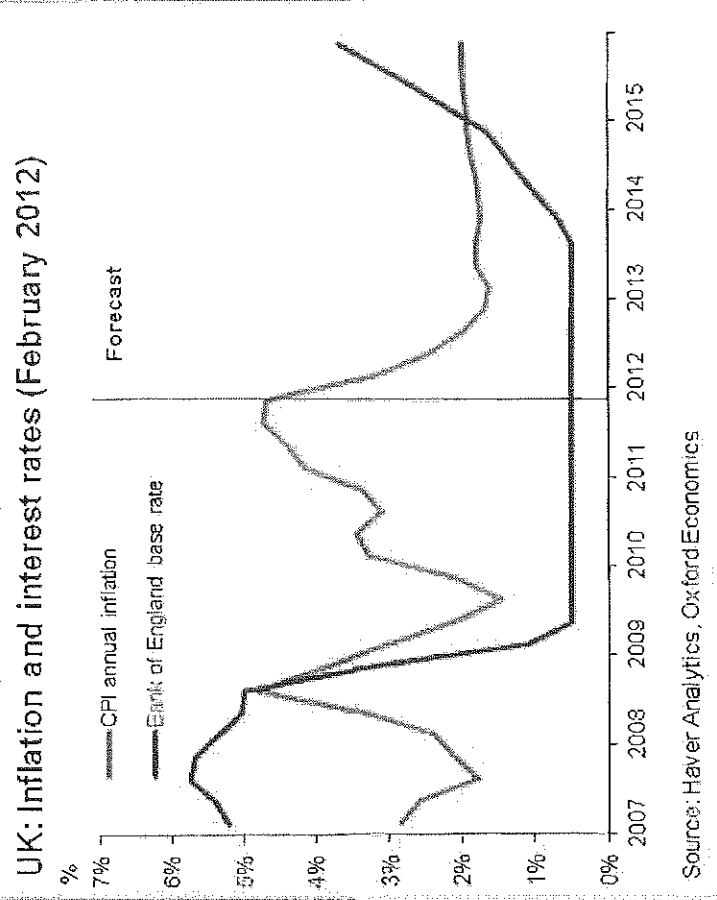
- Inflation has been above its 2% target each month since December 2009
- But finally the annual CPI inflation rate is starting to fall back, notably as one-off effects (such as last January's rise in VAT) start to drop out from the data
- Together with the weaker economic outlook for 2012 and 2013 Oxford Economics now expect the Bank of England's base interest rate not to be increased until Q4 2013 compared to Q2 2013 in the previous report. This continues to be a critical driver of the medium-term house price outlook
- However holding the base rate flat is not a guarantee that bank mortgage rates will not increase
- RBS has very recently increased mortgage rates – and other lenders are expected to follow suit – as a result of the rising cost of funding mortgages. Though not entirely unexpected, the end of the cushion of low interest rates will weigh heavily on consumer confidence, household incomes and possibly house prices as affordability ratios may fall as the share of mortgage repayments of household incomes rises



UK economy update - inflation



UK economy update - inflation and interest rate outlook



Summary of UK economic baseline outlook

Oxford Economics February 2012 baseline economic forecasts for UK – comparison October 2011 baseline (annual percentage growth unless stated)

US GDP	-3.5%	3.0%	1.7%	2.1%	3.2%	3.5%	3.1%	2.7%	2.8%
UK GDP	-4.4%	1.8%	0.9%	1.1%	2.6%	2.8%	2.7%	2.0%	2.3%
Financial and business services GVA	-6.1%	0.7%	-0.5%	2.9%	5.5%	5.3%	5.1%	3.7%	4.0%
Total employment	-1.7%	-0.7%	-0.3%	-0.2%	1.0%	1.4%	1.4%	0.7%	0.6%
Financial and business services employment	-3.1%	-0.3%	-0.1%	1.1%	3.5%	4.2%	3.6%	2.5%	1.5%
Consumer expenditure	-3.5%	1.0%	-1.2%	0.5%	1.9%	2.7%	3.0%	1.4%	2.4%
Bank of England base rate (annual average)	1.2%	0.7%	0.9%	1.0%	1.2%	2.3%	3.9%	1.9%	4.7%
CPI inflation	2.2%	3.3%	4.5%	2.4%	1.8%	1.9%	2.0%	2.5%	2.0%
Retail price index (RPI)	-0.5%	4.6%	5.2%	2.7%	2.5%	3.0%	3.7%	3.0%	3.0%
Retail price index excluding mortgage interest payments (RPIX)	2.0%	4.8%	5.3%	2.7%	2.2%	2.5%	2.7%	2.5%	2.7%
House prices	-7.8%	7.4%	-0.8%	-2.0%	-1.3%	2.2%	4.5%	0.8%	4.7%
US GDP	-3.5%	3.0%	1.7%	2.3%	2.5%	3.3%	3.2%	2.6%	2.9%
UK GDP	-4.4%	2.1%	0.9%	0.3%	1.8%	2.8%	2.8%	1.7%	2.4%
Financial and business services GVA	-6.1%	0.8%	-0.1%	2.0%	4.6%	5.2%	5.2%	3.4%	4.1%
Total employment	-1.7%	-0.7%	-0.3%	-0.4%	0.7%	1.5%	1.5%	0.6%	0.6%
Financial and business services employment	-3.1%	-0.3%	-0.1%	0.9%	3.2%	4.3%	3.7%	2.4%	1.6%
Consumer expenditure	-3.5%	1.2%	-0.7%	0.4%	1.6%	2.6%	2.9%	1.3%	2.5%
Bank of England base rate (annual average)	1.2%	0.7%	0.9%	1.0%	1.0%	1.6%	3.1%	1.5%	4.6%
CPI inflation	2.2%	3.3%	4.5%	2.3%	1.7%	1.8%	2.0%	2.5%	2.0%
Retail price index (RPI)	-0.5%	4.6%	5.2%	2.6%	2.5%	3.2%	3.4%	2.9%	3.3%
Retail price index excluding mortgage interest payments (RPIX)	2.0%	4.8%	5.3%	2.6%	2.3%	2.6%	2.9%	2.6%	3.0%
House prices	-7.8%	7.4%	-0.8%	-0.3%	-1.5%	0.5%	3.1%	0.4%	4.8%

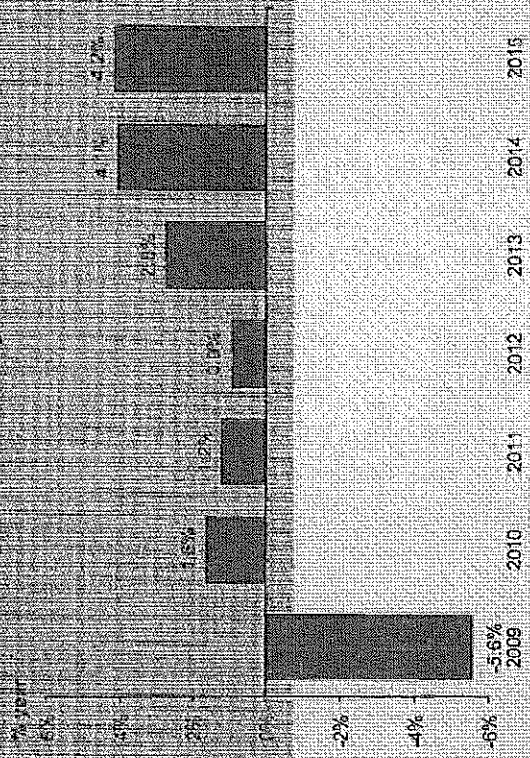
London economy outlook – still stronger than UK average

- The London economy is much less dependent, in relative terms, on public sector spending and employment than many other UK regions (and is therefore less at risk from public spending cuts)
- London is also well placed to take advantage of global trade opportunities
- But London is not immune to the current global headwinds facing the UK economy, notably risks posed by the Eurozone. London's wider professional services sector, for example, faces a tough 2012 as a direct result of the Eurozone debt crisis and the Eurozone returning to recession
- In line with the UK downgrade, London's economic growth prospects have been downgraded in 2012 and 2013. Revised London GDP growth rates are 0.9% and 2.8% in 2012 and 2013, compared to 1.8% and 3.6% previously
- But London's economy is still forecast to grow faster than the UK economy as a whole for the same reasons outlined in previous reports



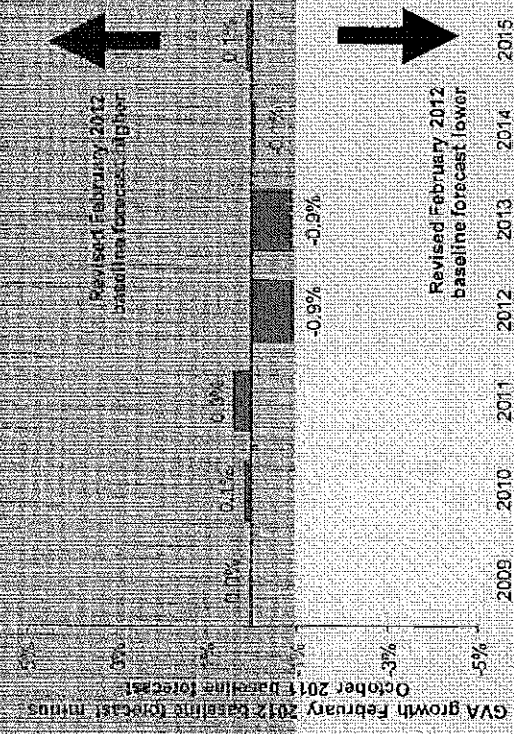
London GVA baseline outlook

London GVA growth (February 2012)



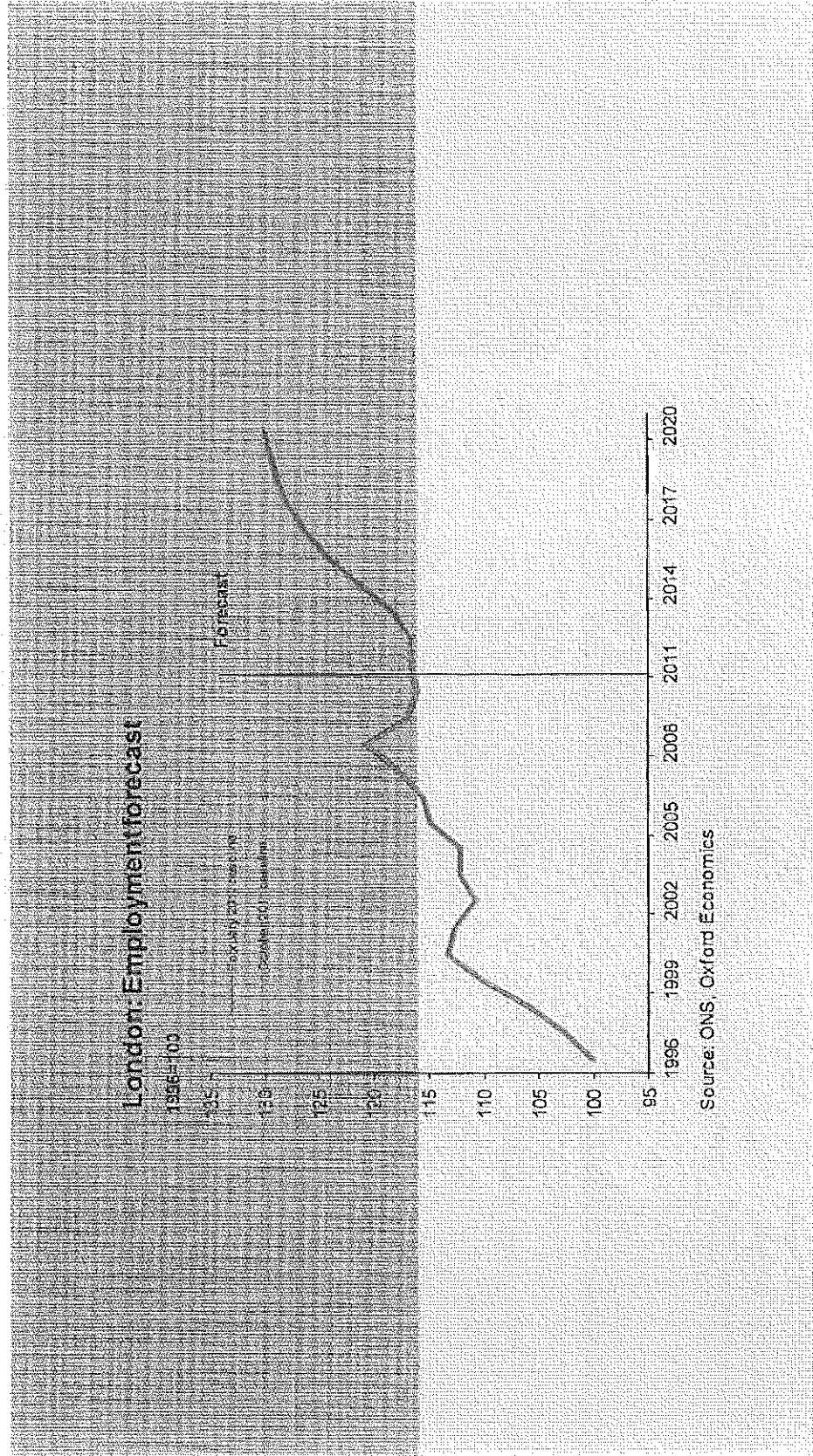
Source: Oxford Economics

London: GVA growth - difference from October 2011



Source: Oxford Economics

London employment baseline outlook



Summary of London economic baseline outlook

**Oxford Economics February 2012 baseline economic forecasts for London – comparison with October 2011 baseline
(annual percentage growth unless stated)**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GVA												
Financial and business services GVA	-5.6%	1.5%	0.8%	1.8%	3.6%	4.1%	4.1%	4.1%	2.9%	3.0%		
Total employment	-6.0%	2.5%	-1.4%	3.0%	5.7%	5.9%	5.6%	5.6%	3.8%	4.1%		
Financial and business services employment	-3.1%	-0.8%	0.4%	0.4%	1.6%	2.4%	2.3%	2.3%	1.4%	0.9%		
Consumer expenditure	-3.3%	2.3%	-1.2%	1.3%	3.7%	4.7%	4.1%	4.1%	2.5%	1.8%		
Wages (average earnings)	-5.1%	1.4%	-0.2%	0.6%	2.5%	3.6%	3.8%	3.8%	2.1%	2.8%		
Total population (000s)	1.4%	4.3%	2.8%	3.2%	4.7%	4.8%	4.8%	4.8%	4.1%	4.8%		
Working age net international migration (000s)	7,754	7,825	7,887	7,933	7,936	8,069	8,147	8,147	-	-		
House prices	58	51	40	41	47	47	42	42	47	37		
	-8.5%	12.0%	2.5%	-0.6%	0.5%	3.5%	5.2%	5.2%	2.1%	3.1%		
GVA												
Financial and business services GVA	-5.6%	1.6%	1.2%	0.9%	2.8%	4.1%	4.2%	4.2%	2.6%	3.1%		
Total employment	-6.0%	2.7%	-1.1%	2.1%	4.8%	5.8%	5.7%	5.7%	3.5%	4.2%		
Financial and business services employment	-3.1%	-0.8%	0.4%	0.1%	1.2%	2.5%	2.4%	2.4%	1.3%	1.0%		
Consumer expenditure	-3.3%	2.3%	-1.2%	1.1%	3.3%	4.8%	4.1%	4.1%	2.4%	1.6%		
Wages (average earnings)	-5.1%	1.7%	0.4%	0.3%	2.0%	3.5%	3.8%	3.8%	2.0%	2.9%		
Total population (000s)	1.4%	5.0%	2.3%	2.4%	3.2%	4.6%	4.8%	4.8%	3.5%	4.8%		
Working age net international migration (000s)	7,754	7,825	7,885	7,933	7,994	8,066	8,144	8,144	-	-		
House prices	58	51	40	41	47	46	43	46	46	37		
	-8.5%	12.0%	2.6%	1.0%	0.3%	1.9%	3.8%	3.8%	1.7%	3.1%		

Borough economy update

- Each of the three boroughs of interest to Lend Lease still have a higher claimant unemployment rate than the London average (as of January 2012).
- Furthermore in each, especially Newham and Greenwich, claimant unemployment rates have risen faster than the London average. This is especially noteworthy for Newham given the major Olympic construction works in Stratford (Newham). This suggests, and confirms other anecdotal evidence, that Newham residents have not benefited as much from the Olympics. In employment terms, as previously expected, and perhaps may similarly not do so in the legacy phase, which may have house price implications.
- Boroughs with higher initial claimant unemployment rates tend to have experienced a greater increase in unemployment rates during the recession, i.e. the gap between economically strong and weak boroughs has widened as this recession has affected more the lower skilled / more vulnerable workers (as recessions generally tend to do). Based on the latest data, Newham and Greenwich's unemployment rates have still risen even more than might have been expected given their unemployment positions pre-recession.



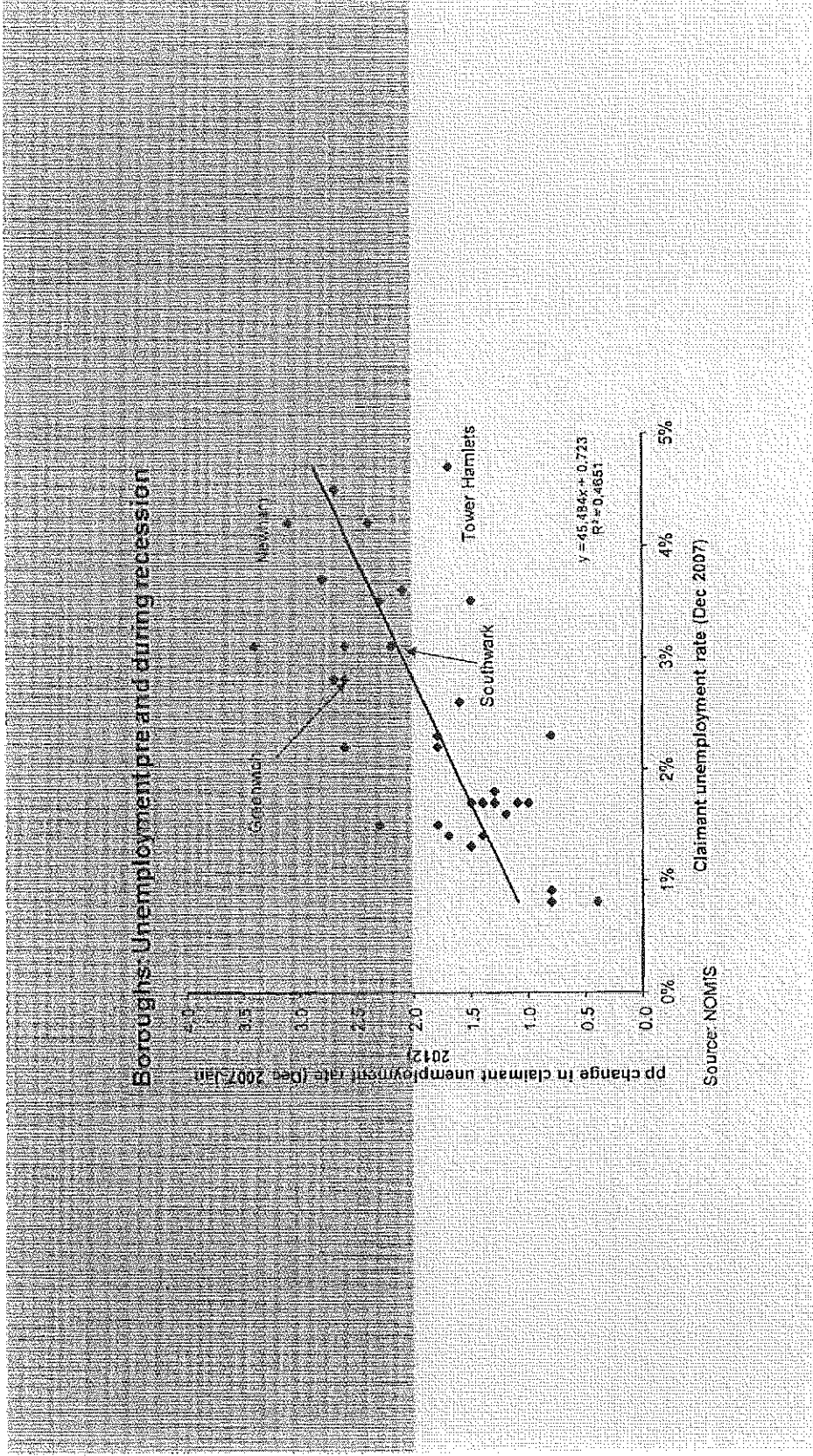
Borough unemployment during and post recession

Claimant unemployment

	Claimant unemployment (000s)		Claimant unemployment % working age	
	Dec 07	Dec 12 Change	Dec 07	Dec 12 Change
Newham	6,788	11,671 4,883	4.2	7.3 3.1
Southwark	6,378	11,104 4,726	3.1	5.3 2.2
Greenwich	4,244	8,229 3,985	2.8	5.4 2.6
London	131,071	235,177 104,106	2.5	4.4 1.9

Source: NOMIS

Borough unemployment during and post recession



Borough background context

- As useful background and context, the table overleaf updates characteristics and trends in the 3 boroughs versus the wider London region.
- Of the 3 boroughs, Newham still had the lowest house prices in Q3 2011 (and by a considerable margin) and Southwark the highest.
- Across the 3 boroughs, Newham experienced the fastest house price growth over the period 1998-Q1 2008 before the recession (part of which must have been a pre-Olympics speculative effect). Although admittedly the starting level of prices in Newham in 1998 was particularly low so there was some scope for catch up.
- However from the start of the recession, house prices in Newham have fallen significantly more and recovered less than the other two boroughs (although note DCLG local authority prices are based on 'sold' properties and are not mix-adjusted, so the number of transactions can be small, affecting average price levels from quarter to quarter). Newham house prices are still 11% below early 2008 peak levels, although prices have started to recover in mid-2011.



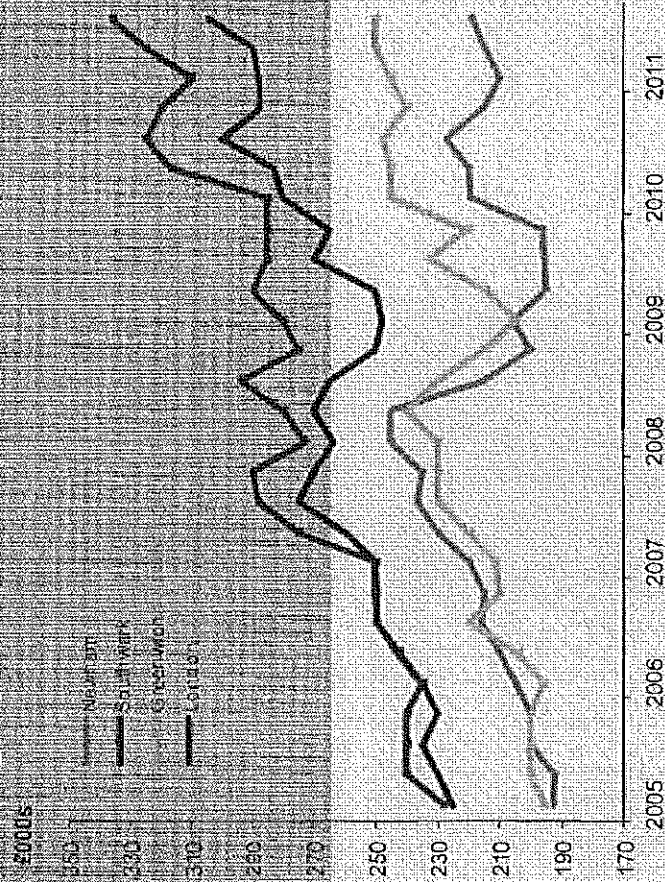
Borough background context

- According to DCLG data, house prices in both Southwark (+14%) and Greenwich (+4%) are now higher compared to levels at the start of the recession.
- Recent population growth has been significantly stronger in Southwark, despite housing stock growth being slightly slower than in the other two boroughs. Southwark is still forecast to have stronger population growth than the other two areas. Southwark's economy also created jobs on a net basis at a faster rate than the other two boroughs (becoming a well-established office base).
- Newham has significantly below London average resident wages, a below average resident employment rate, a higher deprivation score and higher crime levels – factors associated with lower average house prices, and consistent with the actual lower average house prices observed in Newham.
- New 2010 deprivation data reveals little change in the relative ranking of the 3 boroughs. Newham is ranked the 2nd most deprived London borough (falling from 3rd in 2007), Greenwich is still ranked 8th and Southwark 12th (up from 9th in 2007). In many ways these changes mirror observed economic and labour market trends.



Borough house price trends

Boroughs: Median house prices



Source: DCLG

Borough overview

Borough overview

	Activity (Estimated)	Share of Borough (%)	Estimated Borough	London
House prices (Q3 2011)	£219,000	£336,000	£250,000	£305,000
House prices (London=100, Q3 2011)	72	110	82	100
House price growth (Q1 2008-Q3 2011)	-11%	23%	9%	16%
House price growth (annualised, 1998-Q1 2008)	15%	11%	12%	8%
Total population (2010)	240,000	267,000	228,000	7,325,000
Total population - forecast (2020)	248,000	324,000	246,000	8,482,000
Total population growth (annualised, 2010-2020)	0.3%	1.2%	0.8%	0.6%
Vacancy rate (2011)	2.7%	1.7%	4.2%	2.3%
Total housing stock (2011)	103,000	126,000	108,000	3,363,000
Total housing stock growth (annualised, 1998-2011)	1.0%	0.9%	1.3%	0.7%
Rank index of multiple deprivation among 33 London boroughs (2010)*	2	12	8	-
Notified crime offences per 1,000 pop (2010)	123	100	92	85
Total workplace employment (2009)	83,000	196,000	80,000	4,742,000
Total workplace employment growth (annualised, 1998-2009)	0.9%	1.4%	0.8%	0.6%
Resident employment rate (2010, smoothed average)	54%	56%	54%	57%
Resident full-time weekly wages (London=100, 2011)	83	103	98	100

Source: DCLG, ONS, ABI, BRES, ASHE

Notes:

* 1 = most deprived (Hackney); 33 = least deprived (Richmond upon Thames)



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UK house price central baseline outlook



UK latest house price trends

- The UK housing market continues to stutter following the temporary revival in late 2009/early 2010, and remains in the second phase of a 'double dip'. (The +1.9% rise in prices in 2011 Q3 according to DCLG, while an outlier, should however be observed carefully in the coming months).
- But the key difference with this second phase of the 'double dip' is that quarterly house price falls are much more moderate than during the recession. This is not unexpected as the economy, even with recent contractions in output, has not been as weak as during the earlier recession.
- Note while often there can be reported monthly house price rises which grab media headlines, we almost always focus on quarterly house price changes as the 'barometer' for the health of the housing market.
- While UK house prices have fallen in 5 of the last 6 quarters according to the Nationwide and Halifax, and in the 3 of the last 4 quarters according to DCLG, the rate of decline, which ranges from 0%-4% depending on the data source, is much smaller than a decline of 14% (Source: DCLG) observed during the recession.



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UK latest house price trends

House prices (quarterly percentage growth)

	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Nationwide *	4.0%	1.2%	0.5%	3.6%	-0.8%	-2.6%	-0.4%	2.7%
Halifax **	2.5%	3.2%	0.6%	0.0%	-1.2%	-1.0%	-0.8%	0.7%
DCLG ***	4.2%	1.2%	3.0%	1.5%	1.7%	-2.2%	-1.5%	-0.3%

Notes:

* All properties

** All house, all properties seasonally adjusted

*** Mean mix-adjusted

**** Non mix-adjusted

UK latest house price trends

- The double dip in UK house prices continues to be explained by:
 - A higher supply of housing on the market for sale, albeit still low by pre-recession levels compared to late 2009/early 2010 when supply was exceptionally low which helped to spur the temporary recovery in prices.
 - The weak pace and fragile nature of the economic recovery, turning now into a return to a mild recession.
 - Weaker confidence and demand as potential buyers remain faced with an uncertain economic environment and a weak labour market. There has been little dent in unemployment levels yet as private sector employment creation remains weaker than hoped for.
- An extremely challenging mortgage market, especially for first-time buyers, characterised by higher deposit requirements (20-30% of loan values), more limited funds for lending and stricter lending criteria (which is particularly affecting first-time buyers) - the Eurozone debt crisis, and cost to banks of haircuts on sovereign debt, has also increased banks' wariness to lend to all but the safest borrowers; and
- Squeezes on household incomes from rising living costs and muted wage growth.
- **These factors have more than offset the 'cushion' of still historically low interest rates – but as said earlier, even as the Bank of England's base rate remains unchanged, lenders are starting to increase mortgage interest rates.**



UK house price baseline outlook

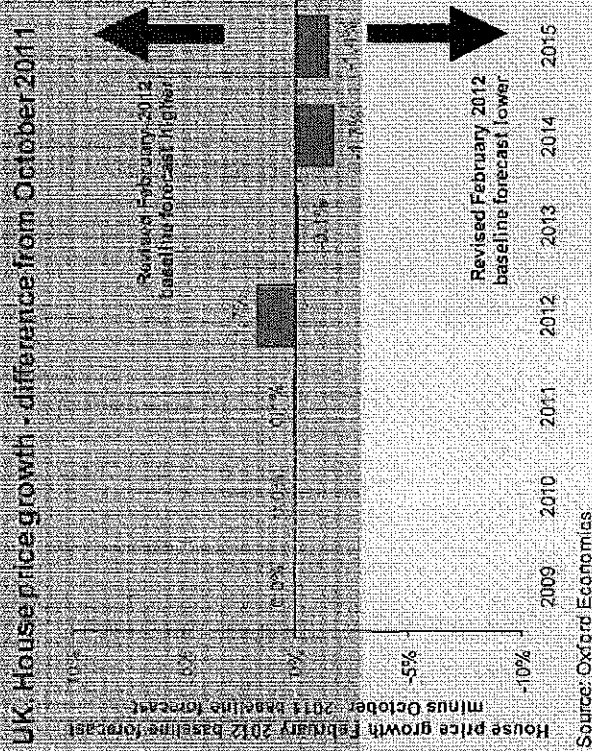
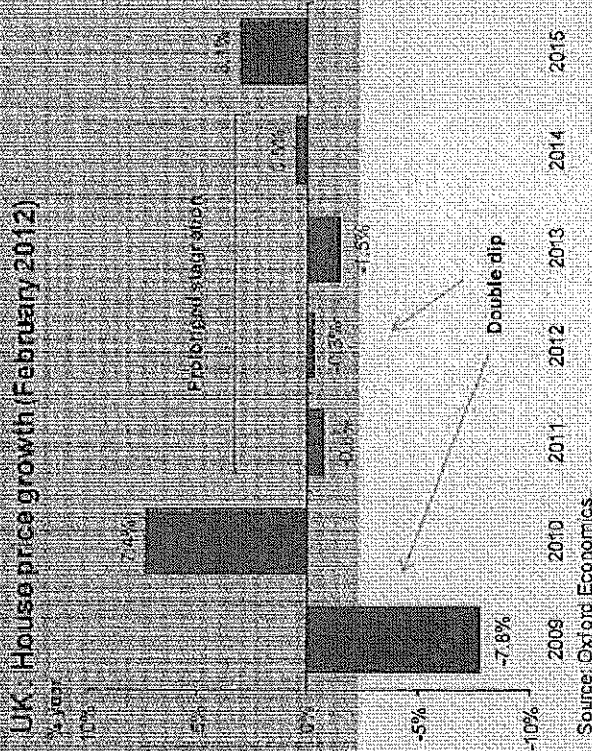
- Compared to the last forecast, the UK house price growth forecast in 2012 is no longer as negative (simply a result of stronger than expected short-term data). But more importantly house price growth in 2014 and 2015 has been revised down by 1.7% and 1.4% respectively
- UK house prices are forecast to continue to fall up until 2014, even as the economy returns to growth in H2 2012
- It will not be until 2015 before a more robust housing market recovery starts to gather momentum, and 2016 before UK house prices recover to peak levels
- But expected price falls are moderate in the baseline scenario - UK house prices are forecast to be only 1.3% lower in 2014 compared to 2011
- That said, overall Oxford Economics has become slightly more pessimistic about UK housing market prospects compared to the previous report

UK house price baseline outlook

- The forecast decline in UK house prices would be greater were it not for
 - The assumption in the baseline scenario that the Eurozone avoids a disorderly debt default, and even worse, a break up of the Eurozone
 - The baseline forecast for the UK only to experience a mild and short-lived recession, with a return to growth later in 2012
 - Bank of England base interest rate remaining unchanged until the end of 2013 (although this is no guarantee of no change in lender mortgage interest rates)
- The correction that has already taken place in prices and improvement in affordability ratios
- Supply shortages still existing, particularly around London and the Greater South East, and the assumed modest rate of new house-building over the medium-term compared to the average number of new homes built over the last decade
- The assumption of further net in migration inflows which will drive consistently strong population growth

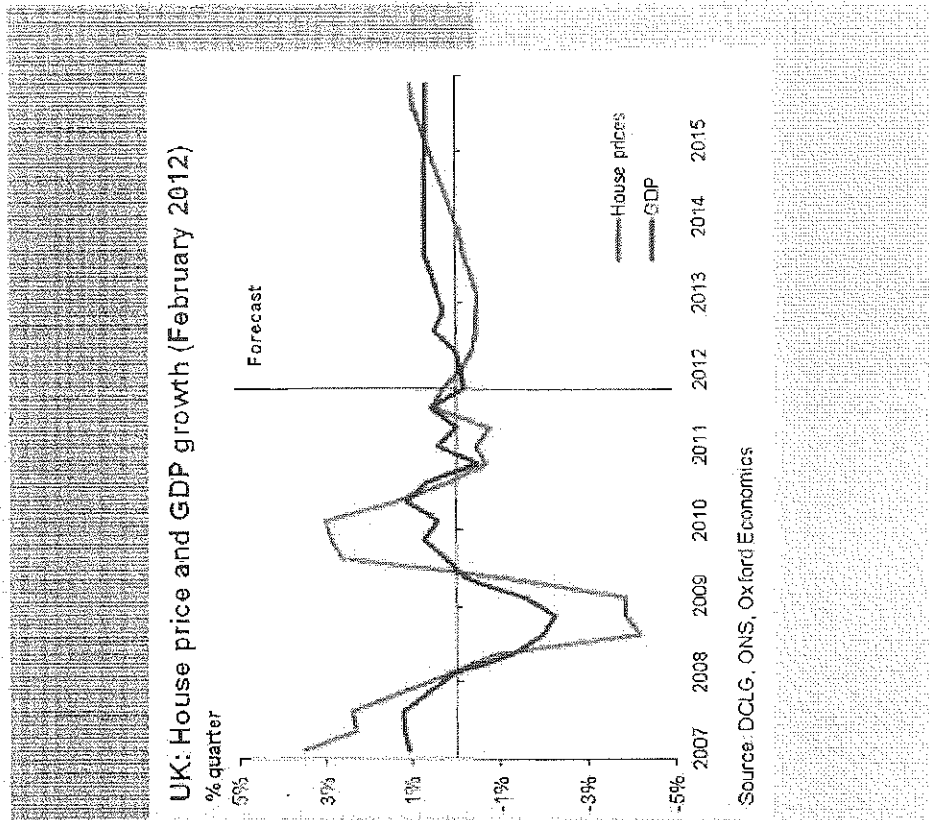
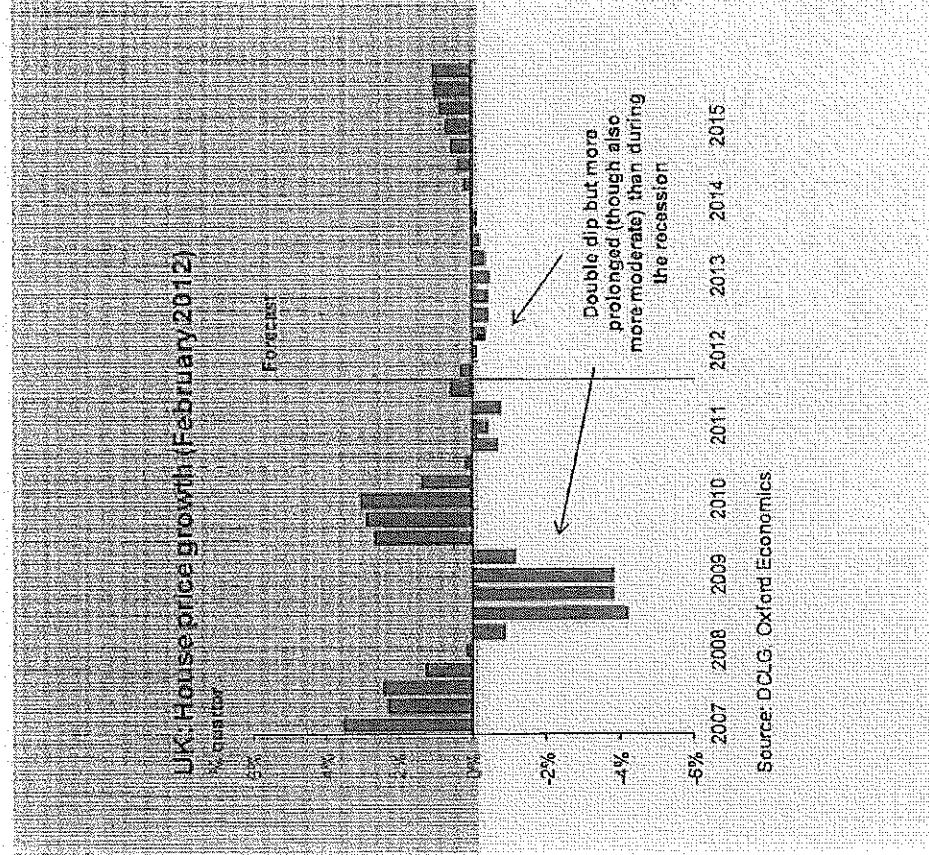


UK house price baseline outlook

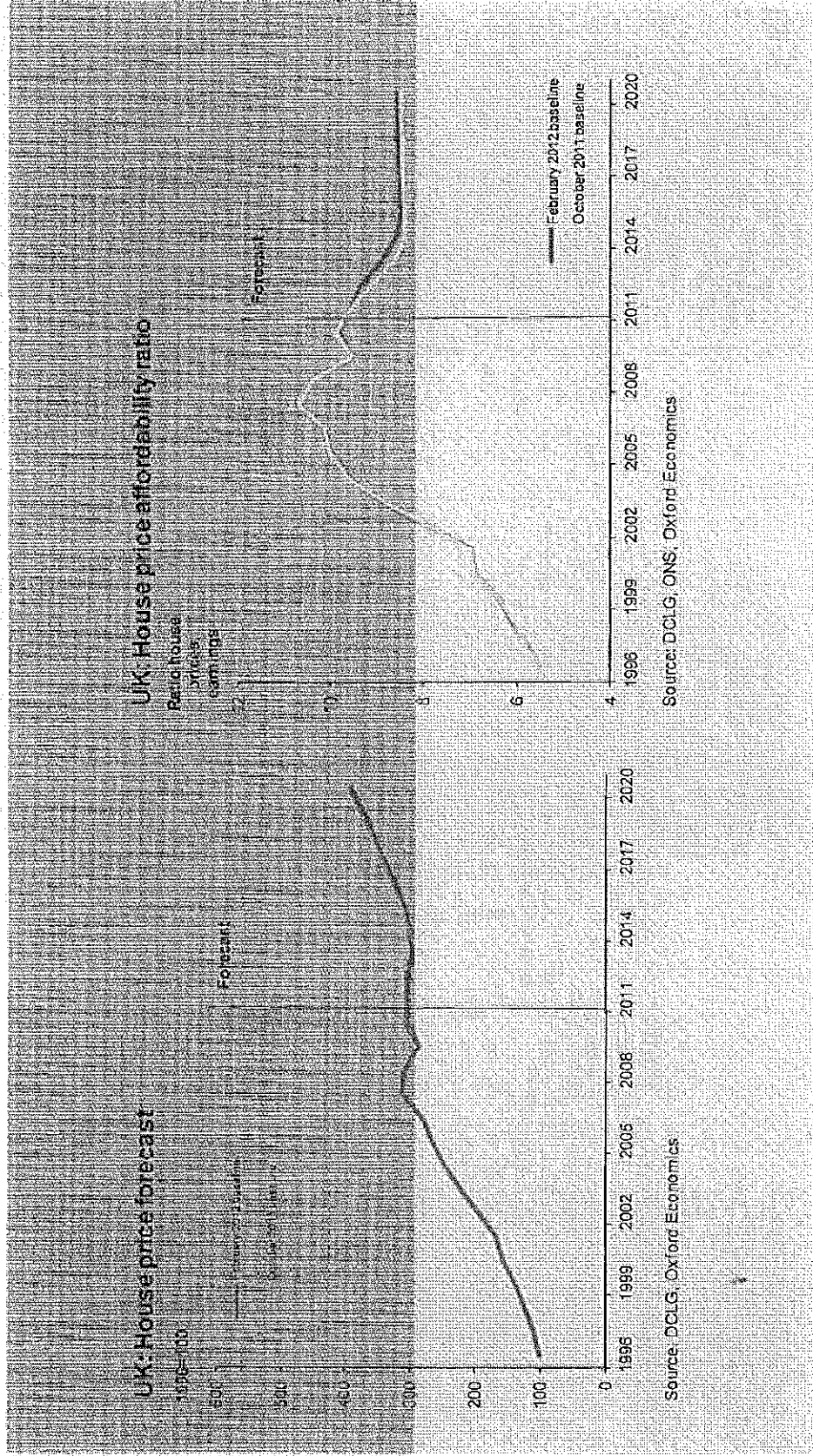


- Note all calendar year house price levels and growth rates presented in this report refer to annual averages rather than end-year or specific quarters

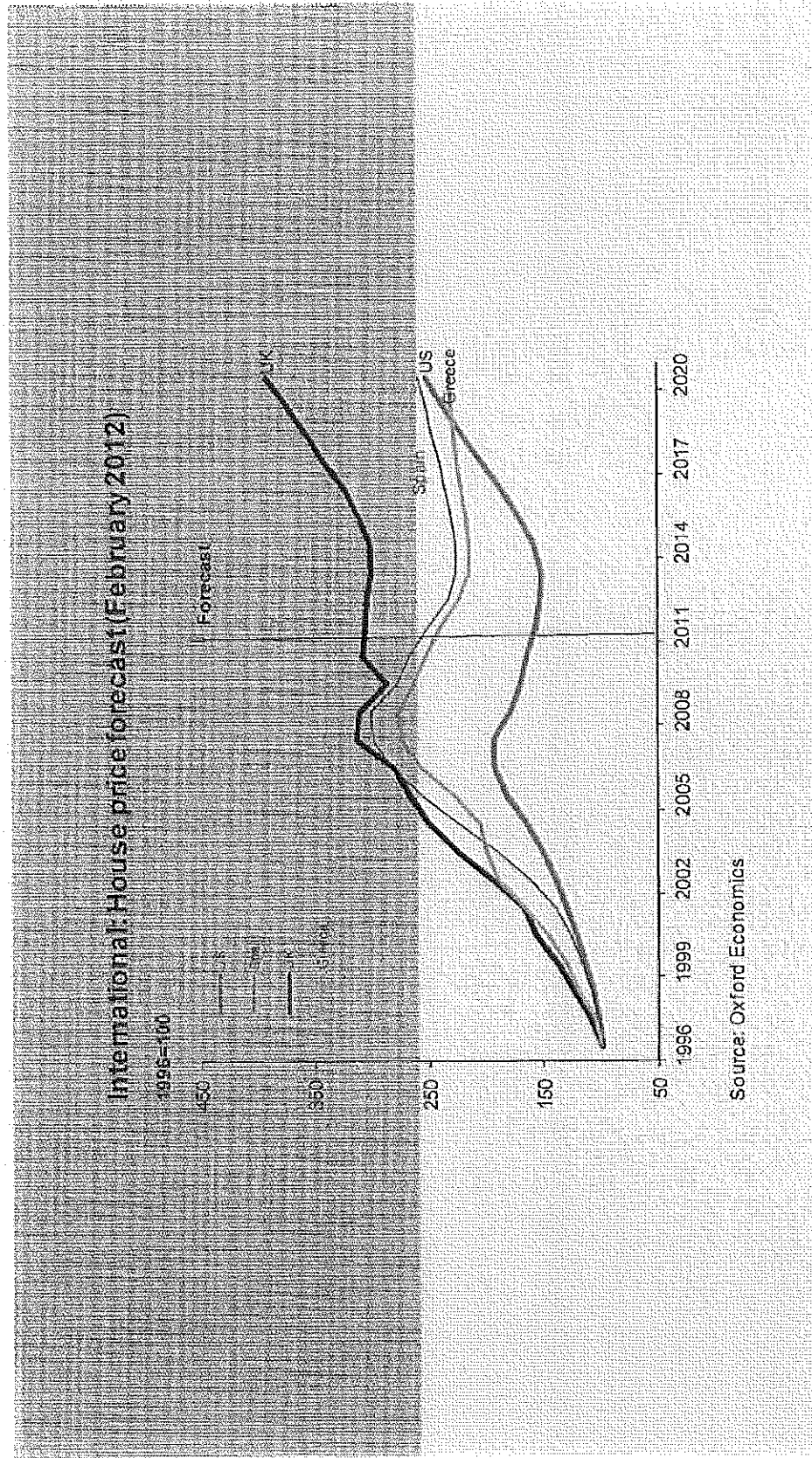
UK house price baseline outlook



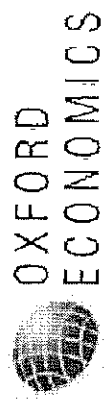
UK house price baseline outlook



International house price corrections



Greater London house price central baseline outlook



London latest house price trends

- London's housing market continues to out-perform the UK average. Increasingly this applies to not only inner London and prime properties but also to outer London and the three boroughs of interest to Lend Lease.
- Whereas at UK level house prices have clearly entered a double dip and are falling which is particularly pronounced for some northern regions, London's housing market is reporting annual and quarterly house price growth.
- According to the three main data sources, London's house prices by end 2011 were up by 3-8% on 2010 Q4 levels.
- The stronger performance of the London housing market versus the wider UK housing market has become a widely accepted feature of the UK economy and housing market.

London latest house price trends

- The London housing market is benefiting from a set of drivers which are much less important in other UK regions or indeed even non-existent.
- One of these drivers is strong demand from foreign investors which is largely independent of the performance of the domestic economy or tightening of domestic mortgage lending.
- This has been a key driver of the central London housing market especially the 'super-prime' sector of the market.
- Foreign investors have been from traditional markets such as the Middle East but more recently, there has been reported evidence of investors from southern European countries where assets are at risk from further escalation of the Eurozone crisis.



London latest house price trends

House prices (quarterly percentage growth)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Nationwide *	4.8%	2.7%	1.7%	3.4%	1.1%	-3.6%	1.3%	4.2%	-1.2%
Halfax **	3.7%	4.1%	5.2%	-3.1%	-1.5%	-3.0%	2.1%	1.3%	1.9%
DCLG ***	6.2%	2.2%	3.7%	2.7%	1.9%	-1.4%	0.4%	0.4%	2.3%
Inner London (DCLG ****)	4.8%	0.0%	3.6%	2.3%	3.5%	-4.2%	2.2%	1.5%	4.2%
Outer London (DCLG ****)	5.2%	-0.8%	4.2%	0.0%	4.0%	-3.8%	0.0%	0.0%	6.0%

Notes:

* All properties

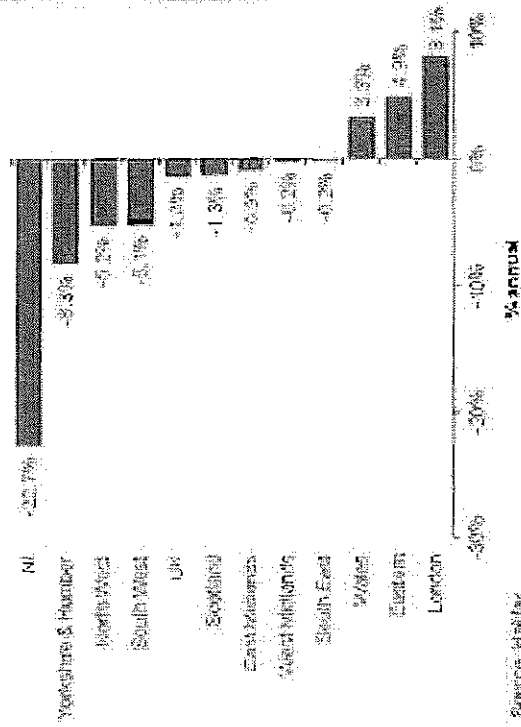
** All house, all properties seasonally adjusted

*** Mean mix-adjusted

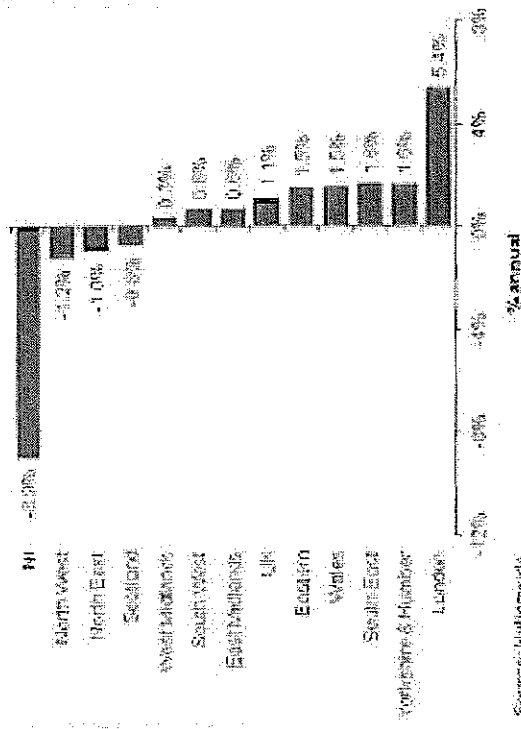
**** Non mix-adjusted

London latest house price trends

UK regions : House price growth (Q4 2011)



UK regions : House price growth (Q4 2011)

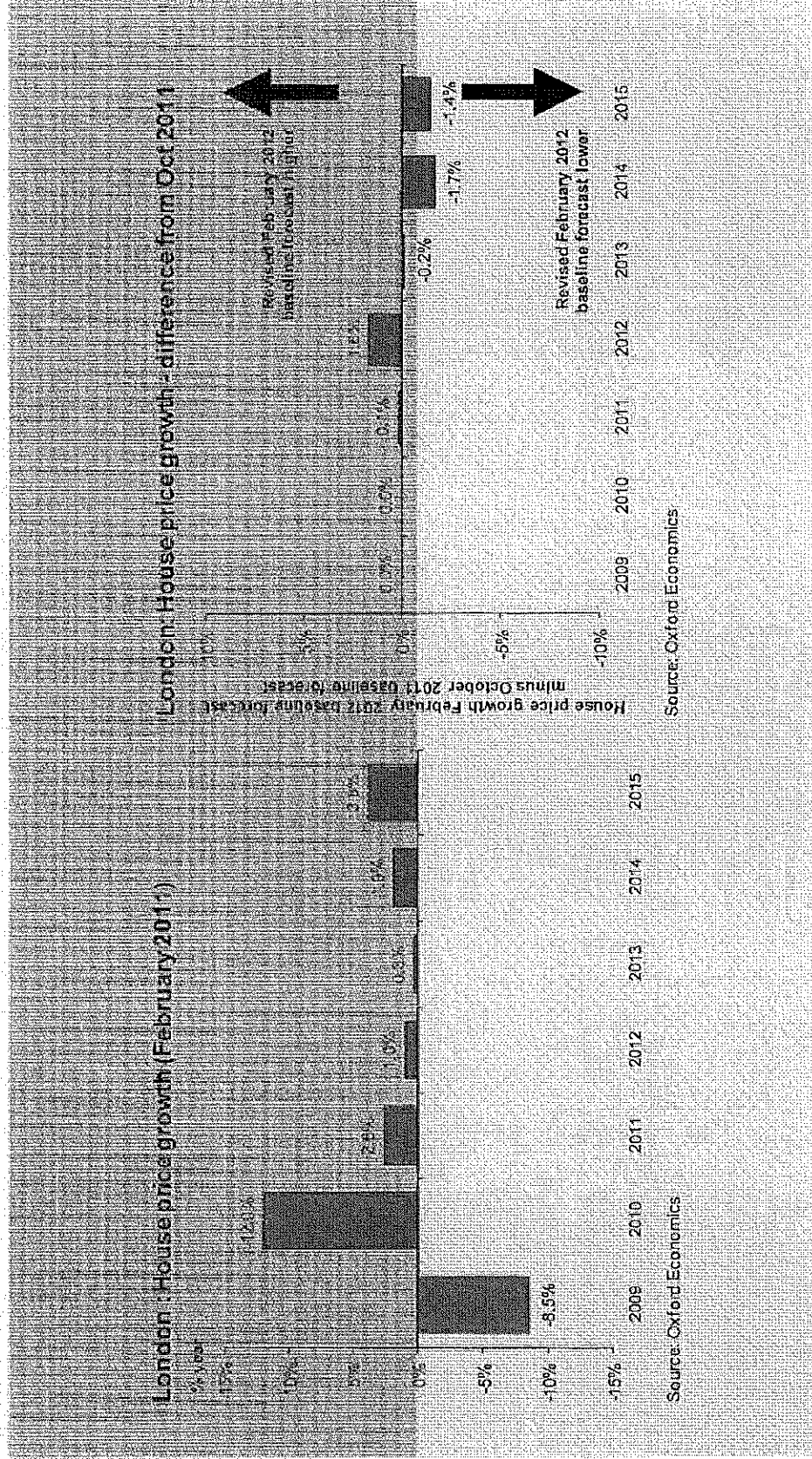


London house price baseline outlook

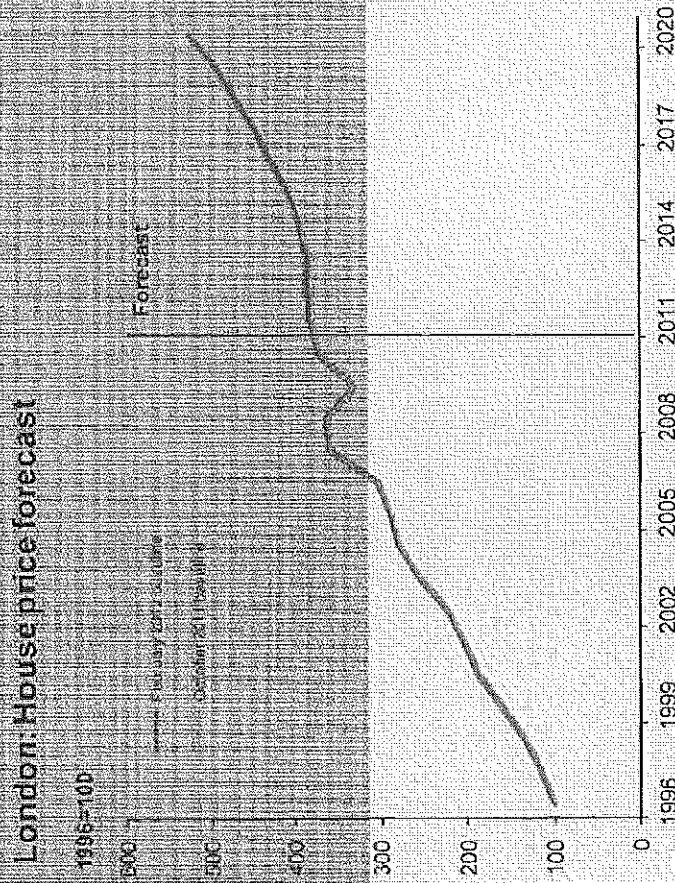
- In the latest forecasts, London's house price outlook, despite a similar downgrade as for the UK in 2014 and 2015, remains stronger than the UK average with very moderate growth predicted.
- London house prices are forecast to be 3.2% higher in 2014 compared to 2011 (and compared to a 1.3% fall for the UK).
- But under the current baseline forecasts, London house price growth in 2012 and 2013 is forecast to be weaker than both 2010 and 2011 with growth of only 1.0% and 0.3%.
- Thus it will still be later in the medium-term before London's housing market returns to more robust growth.



London house price baseline outlook

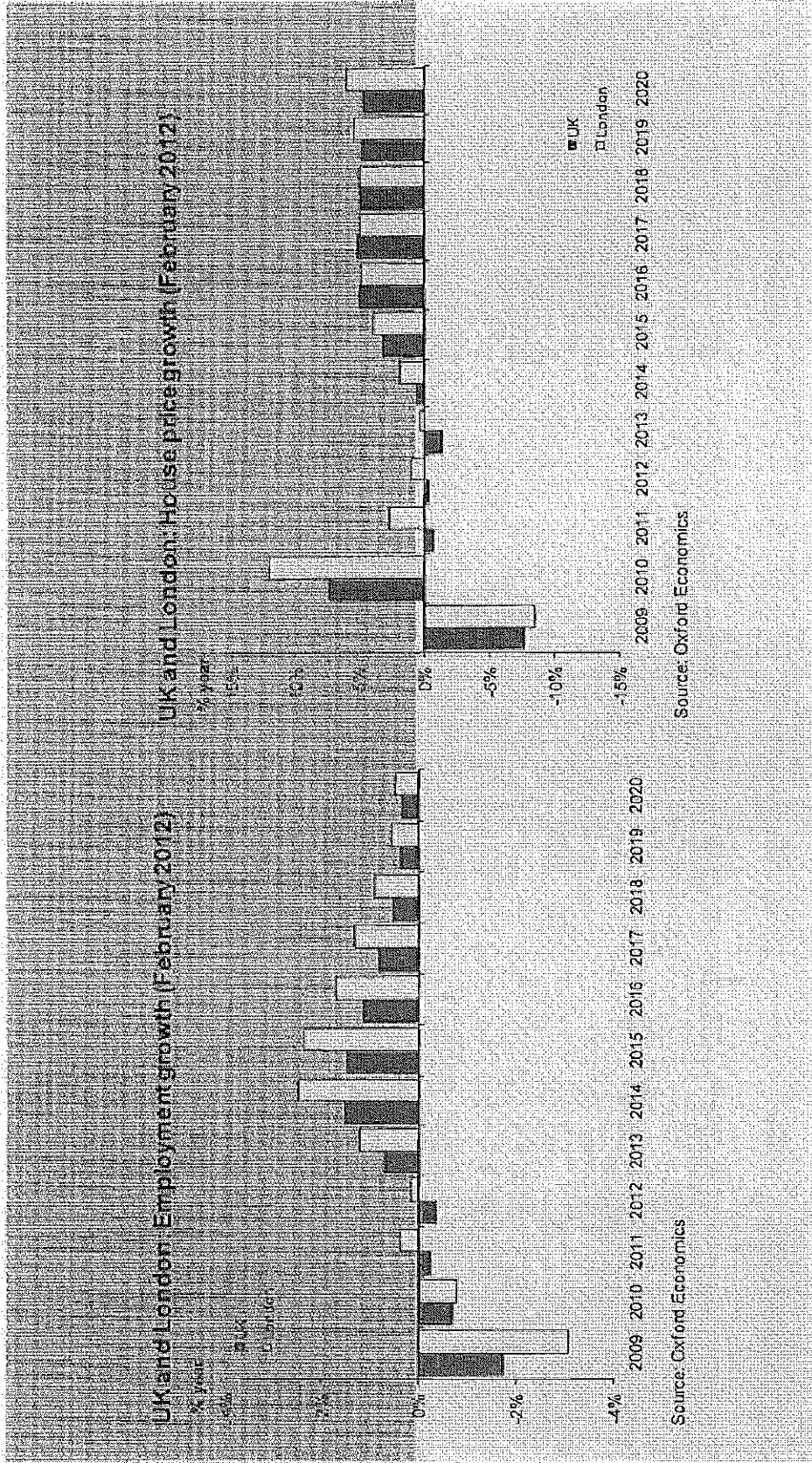


London house price baseline outlook



Source: DCLG, Oxford Economics

London versus UK employment & house price baseline outlook



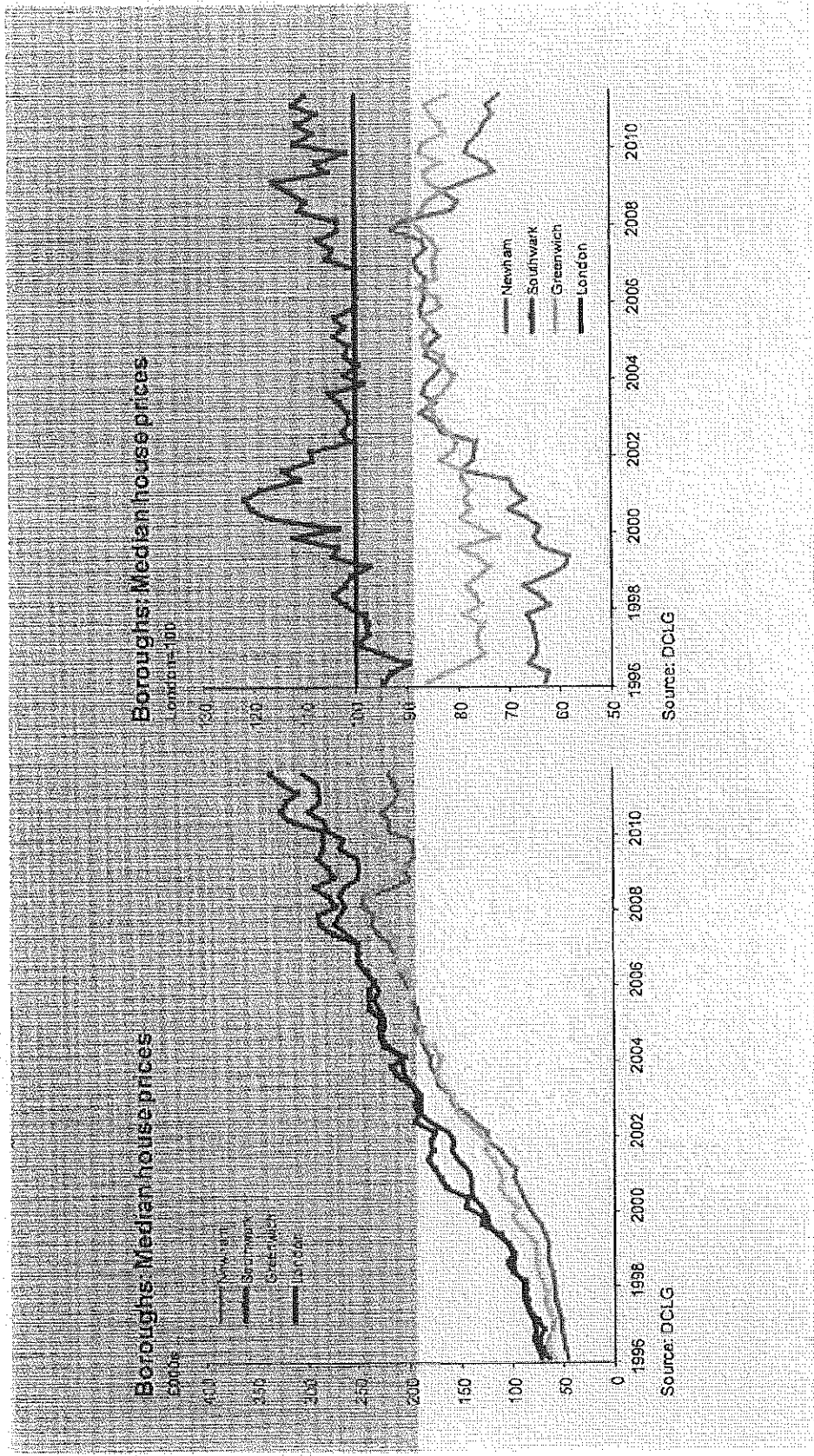
**London borough house price central baseline
outlook**

Stratford, Elephant & Castle and Greenwich

Borough latest house price trends

- While London's housing market had held up exceptionally well in recent quarters, the house price story across London had previously not been as uniformly strong – this however is starting to change according to latest DCLG data
- DCLG is now reporting house price growth in outer London boroughs in 2011 Q3
- House prices in each of Newham (where Stratford is located), Southwark (where Elephant & Castle is located) and Greenwich also increased in 2011 Q2 and 2011 Q3 according to DCLG
- But as said earlier, Newham house prices, unlike the other two boroughs, still remain below their recent peak level

Borough latest house price trends

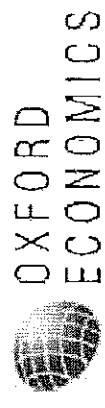


Borough house price baseline outlook

Borough house price baseline outlook



Borough house price baseline outlook



Borough house price baseline outlook

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Borough house price baseline outlook

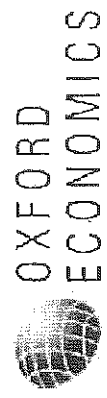


Macroeconomic upside & downside economy and house price scenarios



Macroeconomic scenarios – alternatives to the baseline

Macroeconomic scenario probabilities



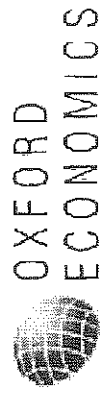
Macroeconomic scenarios – alternatives to the baseline

UK house price scenario outlook

UK GDP and house price scenario outlook

UK, London and borough house price scenario outlooks

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UK house price scenario outlook

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London house price scenario outlook



Newham / Stratford house price scenario outlook

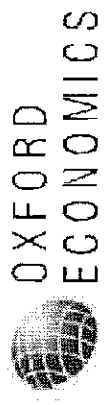


Southwark / Elephant and Castle house price scenario outlook

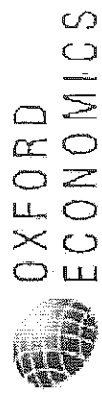
Greenwich house price scenario outlook

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**Downside and upside risks to house price
outlooks**



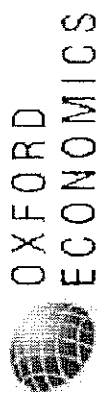
Downside and upside risks to house price outlooks

Downside and upside risks to house price outlooks

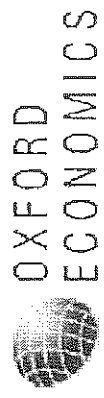


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Borough upside and downside risks and regeneration impacts



Regeneration scenarios

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