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# EATS GREEN SHOOTS AND LEAVES

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As regular readers will know, grammar is not my strong point. But thanks to Lynne Truss's wonderful book *Eats, Shoots and Leaves*, I am at least aware of my deficiencies in this regard. The title of her book was a reference to a sentence that she read about the eating habits of giant pandas. Apparently they eat shoots and leaves but the placement of an erroneous comma implied that giant pandas tended to shoot something after eating and then departed. This is why I have been very careful in my choice of title for this week's Oracle; I do not want to risk the wrath of Ms Truss any more than is necessary.

The phrase 'green shoots' in this week's title is a reference to the recent uptick in the prices of UK residential property as implied by the Halifax and Nationwide house prices indices. Before thinking about this upturn it is worth bearing in mind how far prices have fallen since their peak in the summer of 2007. According to the Halifax index the price of an average property has fallen by 20% since the peak in the market, while the Nationwide index has fallen by 16% since its peak. If this is a fair reflection of the state of the market then anyone who bought a property in August 2007 with a deposit of 20% or less is probably now in negative equity.

But recently green shoots have been spotted all over the UK's residential property garden. Since May property prices have risen by 3.3% according to the Halifax index and 3.6% according to the Nationwide index. Phew, that's a relief.

However, before everyone gets too excited it is worth considering a number of points. First, the prices as recorded in these indices are being determined in a very thin market. Surveys suggest that although buyer interest has increased rapidly recently, the stock of homes for sale is currently as low as it has been in almost twenty years. Second, on any reasonably conservative measure of fair value – such as the average house price to average earnings ratio – property prices are probably still as overvalued as they were at the peak of the last housing boom in the early 1990s. Third, unemployment is still rising and may rise further next year as the new conservative government, sorry, as the UK's government is forced to make some hard decisions about public spending and taxation after the next general election. Fourth, interest rates are at (near) zero, a significant benefit to anyone that took on a tracker mortgage before the crunch bit. But rates will not remain this low for ever.

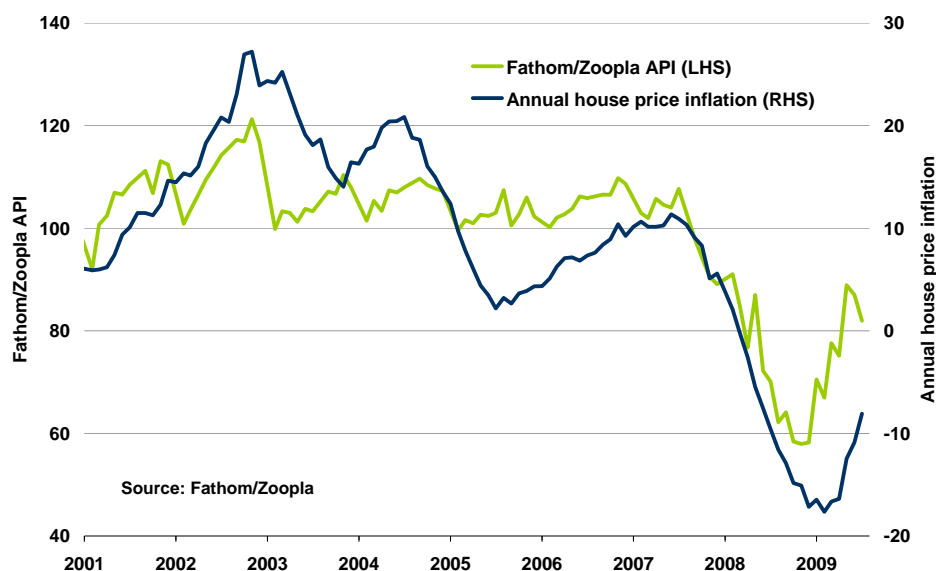
Finally we can point to the latest reading on the Fathom/Zoopla Auction Price Index (API). This is an index consisting of property prices for those properties that are traded at property auctions. In our view this gives a far better gauge of the current state of the market, since it represents a market clearing price for anyone that wishes to sell their home today. We have calculated the difference between the price of homes as implied by the main house price indices and those implied by the prices of homes sold at auction. At the peak of the housing market bubble, auction prices were higher than those in the conventional market.

But today auction prices are well below the prices paid in the conventional market, as the green line representing our API shows in this week's chart. The current API value of 82



implies that there is currently an 18% discount on properties bought at auction compared with those that are bought in the conventional market. Our analysis shows that more than 40% of the properties sold at auction in July went for a discount of between 10% and 40%. The July figure is the second month in a row that the index has fallen, which indicates renewed weakness in the underlying market for residential property, in sharp contrast to the apparent renewed strength indicated by the recent increases in the conventional indices.

### The Fathom/Zoopla Auction Price Index and annual property inflation



In our view then the green shoots in the property market will be devoured by economic fundamentals – rising unemployment, hopelessly overvalued property prices etc. You could say that these fundamentals currently eat green shoots and leave. We can only hope that its appetite is satiated soon.

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