

October 30, 2015

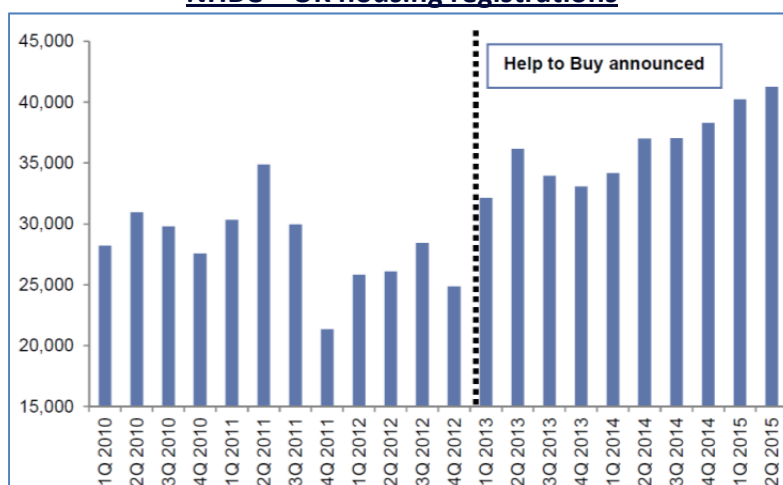
Dear clients and colleagues,

The latest statistics on the UK housing market show a small decline during Q3 compared to the same period last year. While the total amount of houses registered was down 2%, we observed that the drop came mostly from the public sector which fell 4%. Despite this marginal drop in Q3, 2015 should be a strong year for the housing market.

The national planning framework introduced in 2012 has greatly contributed to the housing development by ensuring that sufficient land is available. An increase of land supply has helped in maintaining prices very low. In fact, as of June 2015 the average price of greenfield land was actually down 2% compared to the same period last year.

Subsequently several programs were introduced by the UK Government to support the housing market. The Help-to-Buy scheme has certainly been one of the most important initiatives created so far. This scheme offers up to 20% of the purchase price as a Government equity loan available to the buyer. The buyer must provide an upfront deposit of 5% and the 75% remaining is financed through a mortgage lender. Help-to-Buy equity loans are only available on newly built houses and the maximum purchase price of the house cannot exceed £600k. As shown below, the Help-to buy program has been an important driver of the UK housing recovery. Since the introduction of this program in 2013, the registration of newly built houses has accelerated.

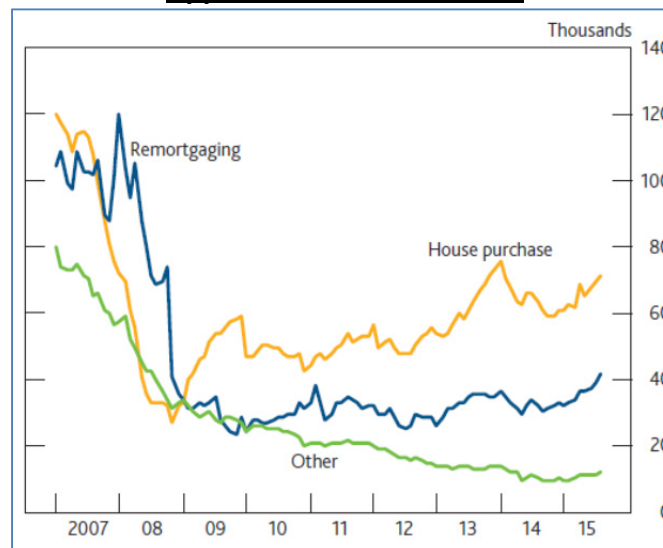
**NHBC – UK housing registrations**



Source: NHBC

Thanks to increased competition amongst lenders and very low interest rates, the mortgage lending environment remains healthy. While both mortgage approvals and refinancing continue to increase, we notice that mortgage volumes are still at 50% below their pre-crisis level. Lenders anticipate that the total lending volume for Q3 could reach more than £61B which would indicate a year over year improvement of +12%. Recent data on mortgage default has also been trending in a favorable direction. Default rates on secured loans to households fell significantly in Q3 and we expect that trend to continue.

### Approvals of secured loans



Source: BOE

We expect the UK housing market to continue on its path to recovery. UK's strong employment situation combined with positive real wage growth and a very competitive lending market should be supportive to housing demand. Programs put in place by the Government, which will remain for at least another 4 years, should provide additional incentives to homebuyers. We expect this situation will remain particularly beneficial for house builders, lenders and the construction sector.

Have a good weekend.

The Global Alpha Team