COMMENTARY



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.



Source: NHBC

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

COMMENTARY cont.



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 indicates 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