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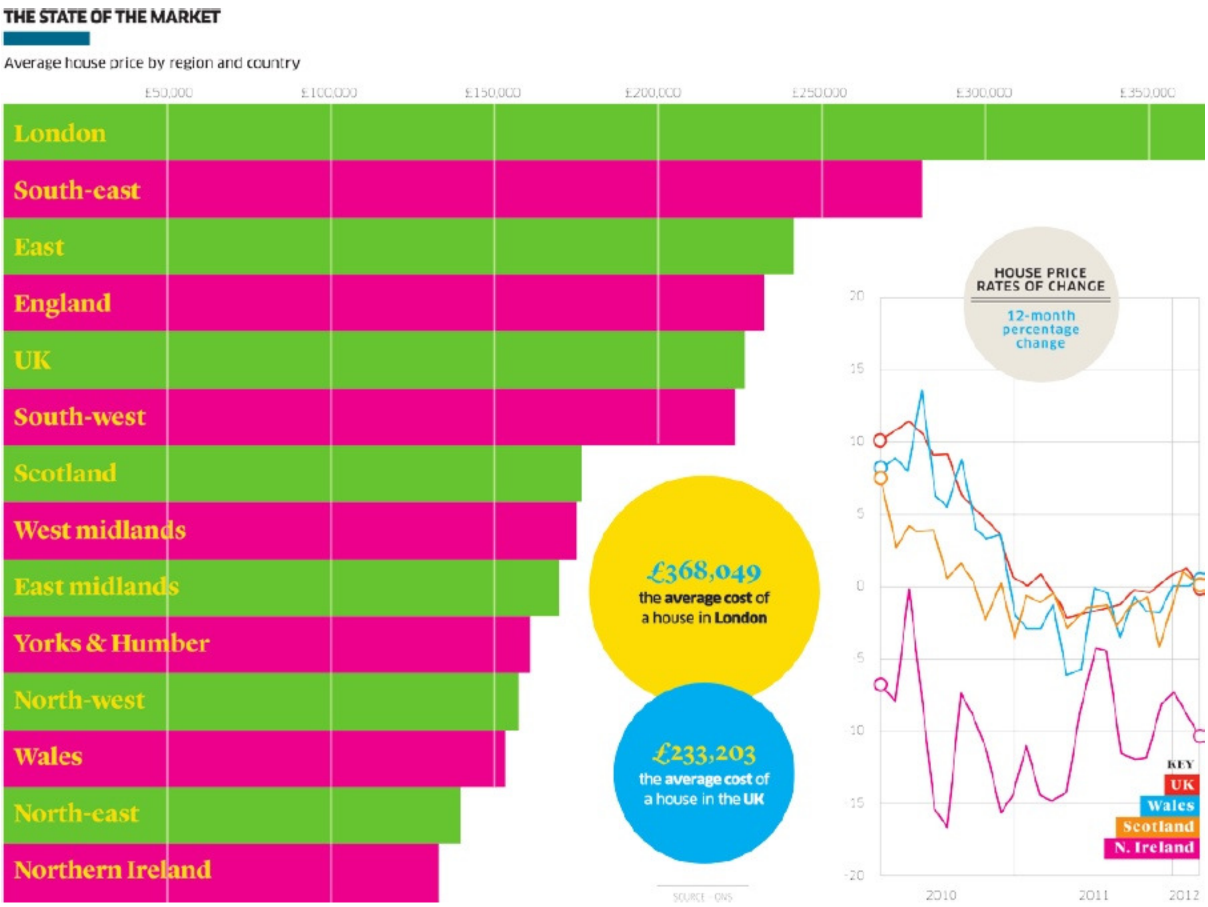
Shadow of the eurozone crisis may accelerate a dive in property prices

There could be a summer of discontent for house sellers if a Greek exit spreads contagion. By Chiara Cavaglieri

A difficult spring for the property market could turn into a summer of discontent for house sellers as the eurozone crisis goes from bad to worse. This time of year usually sees a boost in sales as potential buyers begin house hunting but the latest figures from the Council of Mortgage Lenders show a hefty 19 per cent drop in gross lending, falling from £12.6bn in March to £10.2bn in April, the lowest figure since April 2011. Partly this is explained by the end of a stamp duty holiday for first-time buyers on 25 March but the biggest impact is sure to be concerns over Europe.



"The mortgage market has gone into reverse. Borrowers are already bearing the brunt of the political dithering in Europe, and are being hit hard by rate rises and tightening lending criteria as banks scramble to protect their balance sheets," says Richard Sexton, director of e.surv, a chartered surveyors firm.

Unsettled financial markets increase the cost of wholesale funding for banks and they have been quick to pass this on to customers by increasing mortgage rates and tightening criteria. For borrowers with deposits below 15 per cent, lending has fallen for the past four months and borrowers are warned to expect this to continue.

Lenders are also changing the way they underwrite cases, taking a much stricter view when calculating affordability and making it more difficult for people to borrow the amounts that they require. This is partly because their own access to funds has changed and they don't have as much to lend out, but is also about finding ways to manage demand. Some lenders can only cope with a certain level of business so increasingly lenders have come into the market with good rates for a few weeks before retreating and putting rates back up.

A market that has lost momentum is always a cause for concern and the Diamond Jubilee bank holiday and London Olympic Games may well stall things further. The real worry, however, is the impact that a Greek exit from the euro could have and this is making an already uncertain public even more reserved. If lenders run scared too it could push the UK housing market right back to square one.

Some argue that because a Greek departure has been expected by the markets it has already been priced in, but the real issue lies in whether there will be a domino effect in other vulnerable countries, namely Spain and Italy. Jonathan Davis, the managing director of independent financial adviser Jonathan Davis Wealth Management, thinks the EU issue is just another the banks have to deal with and he predicts the loss of hundreds, or even thousands of billions of euros when Greece, Spain, Portugal and even Italy default.

"On top, the banks will see massive red lines over their balance sheets with corporate and residential losses in UK," he says. "In our view, a stocks crash and housing crash is coming and it will be at least as big as 2008. The eurozone crisis could send UK house prices into freefall."

Figures from HM Revenue & Customs add more worrying evidence to the pile showing a huge drop in the number of properties sold from a peak of 88,000 in March to an estimated 72,000 homes sold in April. If we look back to April 2006, 137,000 sales were recorded across the UK. Halifax, Nationwide and this week the Office for National Statistics have reported price falls in April. The ONS house price index for March showed that the average UK property is now £225,283, 0.4 per cent lower than a year earlier. Even in London, where prices have been led by foreign money, the average fell by 0.2 per cent, marking the first year-on-year decrease in London since October 2009. Despite this, experts say the fallout from the eurozone could cause a further split between prices for prime property in central London and the rest of the UK because wealthy Europeans will be looking for a safe haven.

"We may find that we have a two-pronged market. Prime central London is going to become even more attractive to French, Italians and Greeks looking for somewhere to park their money so it could become even more disjointed from the rest of the country," says Andrew Montlake from mortgage broker Coreco.

If mortgages elsewhere in the UK do become persistently more expensive and difficult to obtain, this will inevitably spook potential buyers even more and cause prices to sag further. This means that for most mortgage holders, now is a good time to seek some protection.

We can be sure Greece will have some kind of impact, at least for the short term, and mortgage rates will almost certainly rise. So, for those who can, fixing into a decent rate now does make sense, especially if they are concerned about how much a rise would affect their household budgets.

"I do think that those people who need to remortgage, or are approaching the end of a fixed rate, should be looking now at locking into one of the available products," says Mr Montlake. "I don't believe that in six months' time you'll be able to get the same competitive deals that you can now."

Homeowners wanting to sell may have to become far more realistic about asking prices and will have to employ all the tactics they can to increase their chances of a successful sale. However, Mr Montlake argues that trying to predict how a market will react is difficult at the best of times and even more so at the moment, so the only answer is to do what is best for you at that time.

"If you need to sell, perhaps because of a job, or because you're starting a family, don't put your life on hold for something that you can't control. Take independent advice and get the best possible product, one that suits you now and in the future, not just the cheapest rate out there. That's all that people can do," he says.