THE INDEPENDENT

Chill headwinds blast through the housing market

Cuts, rising unemployment and falling confidence mean the market is still on a knife-edge. Julian Knight reports

Sunday, 19 December 2010

Bright Spot: The central London property market is expected to show a stronger recovery than most of the rest of the country

House prices are either on the edge of a precipice or merely floating gently downwards, depending on which commentator you believe. But next to no one is predicting that the next move in house prices is up.

"The headwinds are negative at present," says Martin Gahbauer, Nationwide's chief economist. "We still have low numbers of sales. As for mortgages, although they are more available than they were a year or so ago, they are nowhere near as numerous as before the credit crunch. What's more, since the summer we have had an oversupply of property compared to the number of buyers, and that generally means a softening in price.".

These chill headwinds will extend to the wider economy in 2011. "There are the much-talked-about public sector spending cuts, which will affect the economy, particularly in the North, Wales and Scotland. And then, of late, we are seeing an uptick in unemployment again," says Martin Ellis, a housing economist at the Halifax.

"Although this may only be temporary, housing market watchers have to be aware that job prospects have a major impact on the market and prices. It hits confidence," he says.

There is also the fallout of the eurozone debt crisis to factor in, which will hit the UK because the most of its trade is with EU partners.

However, Mr Ellis adds that he believes 2011 will be a year of two distinct parts for the housing market: "The price falls we have seen over the past few months, and which may well continue into 2011, have been partly caused by a glut of properties coming on to the market in the summer. People who had been holding off marketing their homes decided that the summer was the time – a lot of formerly pent-up stock became available. The reverse could happen in 2011, with sellers once again holding back and prices then should reflect this new undersupply."

Interest rates are set to remain low in 2011 and are likely to stay that way in 2012. "At the earliest, a rise will occur in late 2011, perhaps even 2012," Mr Gahbauer says. "This means that mortgage repayments are affordable, which is reflected in record low arrears and repossessions; that, in turn, means there is little distressed stock to further deflate prices."

But, as ever in the UK housing market, prices don't rise and fall in a uniform pattern across the country: there are substantial regional differences. The old north-south property market divide is alive and kicking it seems.

"I can actually see property prices in the M25 increasing over the next year, but falling quite substantially – perhaps by 10 per cent – in other parts," says Henry Pryor, an independent housing market analyst. "The recovery is stronger in London and some select parts of the South, and there is a shortage of space. Whereas in many parts of the North there is an awful lot of new-build properties, with few people to buy them. Also, prices rose to far too fast for the economies in those areas," he adds.

The return of buy-to-let investors, however, could place a floor under the property market. Rents – and therefore rental yields – are on the rise and there is evidence of "gazumping" in major rental markets.

"Buy-to-let is interesting at the moment. If you think about it, if you get little from cash savings or share dividends, then suddenly rental yields look pretty appealing," Mr Ellis says.

But any recovery in 2011-12 may come too late for many estate agents. "There are lots agents that just managed to limp through the last downturn, but who really don't have the money to survive the 12 or 24 months of this one. I can see lots going to the wall," Mr Pryor said.

Cash-rich buyers are in a position to benefit from the slide in prices. "Basically, you've got to be prepared to take advantage of the three Ds this year – divorce, death and debt – but make doubly sure you buy in a good area and a sound property," Mr Pryor added.

However, some commentators are suggesting that we are just starting out on a second dip in the housing market, the first of which started three years ago with the run on Northern Rock.

"Currently, house prices are falling by the equivalent of 10 per cent a year. Rightmove says asking prices have slipped another 6 per cent, and there is little mortgage lending going on because many of the banks are insolvent. This is part two of the housing market crash," said Jonathan Davis, an economist and managing director of Jonathan Davis Wealth Management. "The idea that somehow a few foreign buyers in prime central London will underpin the whole UK housing market is nonsense. During the first leg of the crash, for instance, prices in Kensington and Chelsea fell by the same as, if not more than, elsewhere. Overall, unemployment is on the rise, which should lead to more repossessions.

And then we have inflation to factor in, which, long term, should eventually lead to higher interest rates and more homeowners in difficulty," Mr Davis said.

So it seems that the UK housing market is still sitting precariously on a knife-edge, just as it has since the queues formed outside Northern Rock in 2007 and the phrase credit crunch came into being.

What the experts say about 2011

Nationwide

House prices to fall in the first half of the year but to recover in the latter half

Halifax

Little change in prices or the current transaction levels, the market is going through the "doldrums"

Rightmove

Prices to fall 5 per cent with a widening divide between north and south

Henry Pryor

Ten per cent fall on average across the UK but with prices within M25 staying stable

Jonathan Davis

Sharp falls across all parts of the UK

Carter Jonas

Continued weakness with bright spots in central London and southern commuter towns

Chesterton Humberts

Loose monetary policy will sustain the market with some areas seeing renewed price growth