Going from bad to worse in 2009?

Analysis
By Ian Pollock
Personal finance reporter, BBC News
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However much you think your house is worth now, it seems it may be rather less valuable in a year's time.


Average house prices are down £36,000 since summer 2007 says the Halifax

In 2008, house prices suffered their biggest fall on record, outstripping the annual drop seen in 1990, and even that of 1932 during the global depression.

Now the economy is heading for a new recession, unemployment is rising fast, and the flow of mortgage funds is still being choked off.

The warm glow that rising prices brought to many people has disappeared.

That is hardly surprising.

The Halifax estimates that the average house is now worth £36,000 less than it was in the summer of 2007.

The Nationwide has put the average drop in value at nearly £28,000.

And the process of cashing in on the inflated value of a home by taking a bigger mortgage - known in the economists' jargon as equity withdrawal - has already ground to halt.

More than £300bn was borrowed by UK homeowners using this method between the start of the year 2000 and the first few months of 2008.

"There's been an amazing adjustment in terms of activity," says Simon Rubinsohn of the Royal Institution of Chartered Surveyors (Rics).

Further to fall

A year ago only the regular harbingers of doom, such as the consultancy Capital Economics, and the website housepricecrash.co.uk, were predicting the past year's downturn.

> **Arrears and repossessions will be as bad or even worse than the early 1990s**
>
> Ed Stansfield, Capital Economics

Jonathan Davis, an independent financial adviser, and former spokesman for the housepricecrash.co.uk, firmly expects the slump in prices to continue as more and more homeowners lose their jobs.

"Transactions will stay low so those who have to sell will have to get real with their prices," he says.

"Corporate bankruptcies are snowballing - from mid-January onwards they will rise significantly, so there will be a huge rise in unemployment."

Capital Economics started 2008 predicting a fall of just 5%; rather less than the 15% or so drop that will probably be recorded by the regular surveys from lenders such as the Halifax and the Nationwide.

"The housing market itself is still fundamentally overvalued so prices just cannot be sustained at present levels," says Ed Stansfield, housing market expert at Capital.

"The economic backdrop is significantly bad that whatever further government intervention, arrears and repossessions will be as bad or even worse than the early 1990s."

Both Capital and Jonathan Davis expect prices to fall another 15-20% in 2009, an opinion echoed recently by the head of Barclays bank, and one that few people are bothering to challenge.

Simon Rubinsohn predicts a fall in prices of about 10% but feels that actual sales may fall no further.

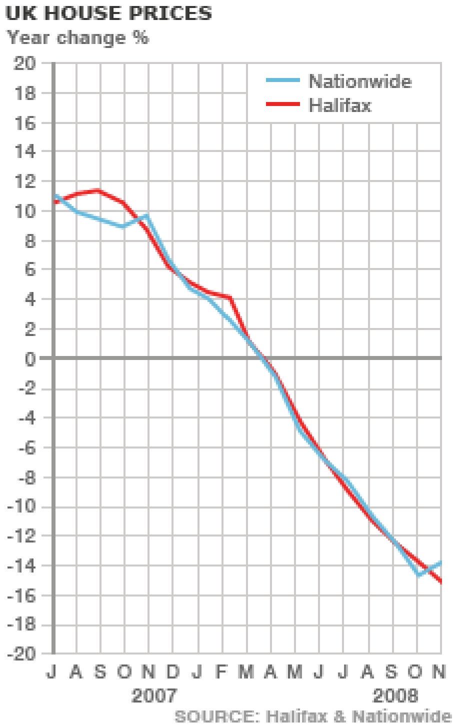
"Buyer enquiries have been going up for the last six months, and sales are probably bumping near the bottom," he says.

Fewer mortgages

So far, the key fact in the market's slump has been the lack of buyers because of the shortage of mortgage funds.

Despite the recent cuts in interest rates, the credit crunch means that banks and building societies will have even less money to offer new borrowers in 2009 than they did during 2008.

So even a relative optimist like Ray Boulger, spokesman for the mortgage brokers John Charcol, is becoming more cautious.



He predicts further price falls in the first half of 2009, before they rebound a bit in the second half to produce an overall price drop of 5%.

"There's a bit of interest from first time buyers sniffing around who have been holding off for some time," he says.

"But many are not aware of the difficulty of getting a mortgage," he points out.

That is discouraging for anyone who has been hoping to buy a home for the first time.

They may have been rubbing their hands with glee at the thought of potential homes becoming more affordable.

Their prospective home may indeed be much cheaper than before.

But it could still be impossible to buy it unless they can put down the much higher deposit being demanded by lenders.

Typically they want to see a deposit worth 15%-20% of the property's value, rather than the 5% that was once standard.

Urgent situation

The shortage of funds, and accompanying rationing, has become so severe that the Council of Mortgage Lenders (CML), expects that the volume of new lending in the coming year could be outstripped by capital repayments and mortgage redemptions.

> **“The government doesn't seem to have taken on board the urgency of the situation”**
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> Ray Boulger, John Charcol

If that happens, it would be the first time since its records began in the 1960s.

Along with two of the biggest lenders, the Halifax and the Nationwide, the CML has declined to predict the course of house prices this coming year.

They argue that such an exercise is pointless given the inherent difficulty of making an educated guess at the moment.

One factor no one can judge is the effect of any new government policies.

The authorities are under pressure not only to keep banks afloat but to help them start lending to homebuyers again.

The chancellor is currently pondering a recommendation from Sir James Crosby that the taxpayer should guarantee the sale of £100bn of new bank bonds - glorified IOUs - so that they can then offer the money they raise to homebuyers.

"The government doesn't seem to have taken on board the urgency of the situation," says Ray Boulger.

"If we have to wait for the next budget, by the time lenders arranged the sale of the bonds we will be in the second half of next year, so it will affect completions in only the last three months of 2009."

Pulling levers

It is worth emphasising just how much mortgage lending has dwindled.

Sales have slumped by 60% in the past year

The number of mortgages granted to home buyers in November by the major banks was just under 18,000 - down by more than three-quarters on the same month two years ago.

Property sales in the UK are down nearly 60% in the past year, according to figures from HM Revenue & Customs.

Even remortgaging, where people move their loans to new lenders but do not move houses, has slumped as the available funds have simply dried up.

Thanks to taking over, in whole or in part, banks like Northern Rock, Bradford & Bingley, RBS NatWest, and Lloyds TSB/HBOS, the government is in a strong position to pull a few levers and dictate their lending policies.

"There's clearly a lot of moral pressure being exerted on the banks, though not to any great effect yet," Simon Rubinsohn points out.

Ed Stansfield at Capital doubts that any government plans will have much effect on prices anyway, because any initiatives will still not enable borrowers take on larger loans.

"It might lubricate the market, and so might slow the rate of decline conceivably, but it won't change the risk of lending, so there will still be further price falls," he says.

Just for good measure, Mr Davis predicts prices will continue falling until 2011 or even 2012, eventually dropping 40% to 50% from their peak of the summer of 2007.