BBC

Head-to-head view on house prices

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House prices in the UK have risen for the fourth month in a row, according to the latest survey by the Nationwide Building Society. So is this a sign that a recovery in the housing market is in full swing?

Ashley Brown (left) and Jonathan Davis comment on the housing market

Views among most commentators suggest that there will be some fluctuation in the months ahead, but not all are agreed on how extreme those movements will be.

The BBC News website asked two industry analysts generally at opposite ends of the argument to give their response to some typical questions from prospective homebuyers and owners.

Chartered Financial planner Jonathan Davis has been a long-time critic of the housing market bubble, and Ashley Brown is the director of independent mortgage broker Moneysprite.

Has the UK housing market recovered?

AB: The housing market, we seem to have forgotten, is cyclical, and there has been plenty of evidence in recent months that suggests we are now on an upward curve.

Ask any estate agent whether they have interested buyers on their books, and they will say yes. Similarly, there are considerably more prospective borrowers approaching brokers.

As a whole, there is much more interest in property, there are more transactions and as the economy picks up I expect this to continue.

Sentiment is at the heart of any recovery and sentiment has, albeit tentatively, returned.
Nobody is saying the recovery will be smooth as there are bound to be some set-backs along the way, particularly a degree of buyer caution when interest rates inevitably rise, but as the economy strengthens so, more fundamentally, will buyer confidence. The housing market has not recovered but it is recovering.

JD: The market fell some 25% from the September 2007 high to the beginning of this year.
Due mainly to temporary government stimulus - borrowings which will be paid after the next election for many years by higher taxes and lower public sector spending - the market has risen to around 20% below the highs.
The trend is still very much down. No trend goes in a straight line otherwise it would be called a straight line! Transaction numbers are still roughly a half of the long-term norm.
Most purchases this year have been high deposit - from bank of mum and dad - or actual cash buyers.
You do not have a 15-year house price rise, ending in the biggest bubble of all time and the biggest economic and financial collapse since World War One and a house price crash which only lasts 18 months.

If I buy now, am I buying at the bottom of the market?

AB: In my opinion, the very bottom of the market was reached several months ago, when cash buyers and professional property investors were having a field day.
But now is still a good time to buy and many people are becoming increasingly wary of missing the boat, as underlined by rising buyer interest.
Ultimately, though, for most people property is bought primarily to live in, and this should not be forgotten. People should buy at a time that is appropriate for their circumstances, not at a time that is being labelled "the bottom".

JD: No. When the government stimulus ends there will be nothing holding up the market. Prices will fall 20-30% from here to 2011/12.
Think unemployment, government debt, household debt, rising mortgage rates, bank bad debts, corporate and personal bankruptcies,

recession (depression?), then taxes and public sector cuts next year. Not a backdrop for sustainably rising house prices.

Is it a good time to become a buy-to-let investor?

AB: Yields are good for the investor at present, but it is definitely a market for the serious buy-to-let investor, who knows the market and is investing for the long term.

Over the past 12 months we have seen a lot of amateur investors suffering because they dived into the buy-to-let market without doing their research first, particularly those investors who bought new-build city centre developments.

That sector of the market is still suffering from over-supply and although there may be bargains to be picked up, it is crucial you do your homework and make sure the demand is there before buying.

JD: No. Rents and capital values are in a falling trend, buy-to-let mortgages are practically non-existent and, by comparison, you can get 3-4% problem-free returns just by having money on deposit in a building society account.

Can I get a mortgage now?

AB: The banks are still being overly cautious but if you have a deposit of at least 10% then there are deals out there. However, for the most competitive rates you will need a deposit of at least 25%. Of course, it does not all come down to the size of the deposit.

Lenders are now looking at lot harder at credit history, earnings and even the type of employment you are in. Getting a mortgage is certainly a lot harder than it was two years ago but is by no means impossible. In fact, for many people, with big deposits and good credit histories, stable employment and who meet all the criteria, it is still a fairly straightforward process.

JD: Of course. But if house prices fall again, as we believe they will, why would you?

Consider what you could rent during the next couple of years - you might be surprised by the value available.

Will mortgage costs remain low for some time?

AB: Swap rates and Libor, which determine lenders' borrowing costs, have been low and falling for some time; in fact, they are now at record lows.

The Bank of England has indicated it will hold rates for the time being as well, as it is wary of unsettling the incipient recovery we are seeing. The base rates of central banks around the world will rise as things improve, but increased lending competition in the UK will soak up some of these increases and prevent the spike in borrowing rates that some are predicting.

Also, major tax rises over the next few years, to pay for past government borrowing, will be a natural brake on inflation, and hence rate rises.

JD: No. They are already rising even though the Bank of England rate has stayed static for months. This is because of global markets.

They will continue to rise for years. Even the Bank of England rate will eventually rise - it can hardly go lower as it is only 0.5%.

To get a reasonable rate you need a 30% to 40% deposit. The amount of deposit will stay like that for years.