BBC

House prices: will they start falling again?

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No one is expecting prices to rise much in the next year

Where are house prices heading?

A dearth of sellers helped to push them back up by 10% from the spring of 2009.

It was on odd thing to happen in the teeth of a recession and a drought of mortgage funds.

But prices in the last few months have reached a plateau, according to recent surveys from lenders such as the Nationwide and the Halifax.

Some experts think house prices will either stagnate for the next year or so, or even fall again.

"Last year's revival did not have much of a foundation," says Ed Stansfield, of the consultancy Capital Economics.

His firm has, in the past few years, been among those predicting quite sharp house price falls, regarding homes as grossly overpriced compared to average incomes.

And nothing has happened to change his mind.

"They [prices] will go back to their previous low and there is plenty of scope for them to fall back below their level of Easter 2009," he added.

'Silver lining'

Not everyone takes that view.

"The long-term trend reversed at the end of 2007"

Jonathan Davis Financial adviser

Ray Boulger of mortgage broker John Charcol has been a consistent predictor of recovering house prices following the slump caused by the banking crisis.

He was in fact right to think they would go up again during the course of 2009.

He admits that his more recent prediction, that they would rise by about 5% over the course of 2010, now looks a bit off-beam.

And he feels that prices will change little in the coming 12 months, probably ending somewhere in the region of 2% either side of their current levels.

"The silver lining for the housing market is that because the economy is subdued the Bank of England will keep interest rates low for some time," Mr Boulger says.

Trend reversed

Low mortgage rates have undoubtedly saved many people from dire financial difficulty during the recent recession.

Sales have picked up this year but are still much lower than before the banking crisis

"People in financial distress are still not having to sell houses - it's a big difference from the recession of the early 1990s," says Martin Ellis, chief economist at the Halifax, one of the UK's biggest mortgage lenders.

He too thinks that house prices in the UK will change little in the coming year or so.

Not so Jonathan Davis, an economist and financial adviser who has for a long time been predicting a huge downturn in house prices.

In his view the rise over the last year was just a blip and we can look forward to prices falling by 30% in the next two to four years.

"The long-term trend reversed at the end of 2007," he says.

"All the reasons for the previous 15-year rise in prices have gone - easy credit, rising employment and falling interest rates.

"Rates can now only rise, credit is rationed and unemployment will rise," he warns.

Mortgage rationing

The willingness and ability of lenders to lend has a huge influence on house prices.

Mortgages worth 95%, 100%, or even more of a property's value, helped to stoke up prices in the past decade.

Since the onset of the credit crunch, some lenders have been driven out of business while others have cut back drastically on their lending because they simply do not have the money to lend.

That is why many people now have to put down a 25% deposit to get a loan.

Although this rationing has eased slightly this year, it seems likely to last for a long time.

According to the Halifax's Martin Ellis, 5% or 10% deposit loans are not coming back in the foreseeable future.

"Mortgage availability is not going back to pre-2006 levels," he says.

House predictions to summer 2011

- Ray Boulger, John Charcol: "Very little change"
- Bernard Clarke, CML: No prediction
- Jonathan Davis, financial adviser: "Prices will fall"
- Martin Ellis, Halifax: "Little change"
- Martin Gahbauer, Nationwide: "Small falls"
- Simon Rubinsohn, Rics: "Not a lot of difference"
- Ed Stansfield, Capital Economics: "Down about 10%"

Emergency funding

A key reason for the continued mortgage drought is that the UK's financial institutions need to repay more than £300bn between 2011 and 2014.

That is the sum of the emergency funding they had to take from the Bank of England and the Treasury during the banking crisis.

"This is one of the factors that will affect lenders' capacity to originate mortgages, along with barely functioning wholesale financial markets," says Bernard Clarke of the Council of Mortgage Lenders (CML).

"It's a tough call, depending on what you think will happen to the economy"

Simon Rubinsohn Rics

Will things become even harder for potential borrowers as the deadline for these huge repayments approaches?

Bernard Clarke thinks maybe not, suggesting that lenders are already hoarding their cash so they are in a position to make those repayments on time.

"The effects may be being felt now, in anticipation of this," he says.

For the last couple of years, the CML has not made any formal house price forecasts because of the extreme volatility in the market since the onset of the credit crunch.

Martin Ellis at the Halifax says that behind the scenes lenders have been busy making plans to repay the emergency funding.

The Lloyds Banking Group, which now owns the Halifax, recently told investors that it would "eliminate our use of public and central bank facilities by the end of 2012", and had already paid back some of the money.

'Indigestion'

Mr Ellis' counterpart at the Nationwide building society, Martin Gahbauer, agrees that lenders will have little extra money to lend in the next few years.

He reckons that prices will drift down a little, in single digits, during the next year.

But beyond that he is unwilling to make a prediction.

"The market is still in a state of indigestion, working off the boom years, so I expect any further rises to be below the rate of inflation," Mr Gahbauer says.

Another expert cautious about predicting future house prices is Simon Rubinsohn, chief economist at the Royal Institution of Chartered Surveyors (Rics).

Traditionally it has its finger on the pulse of the housing market but he is reluctant to make a firm prediction about next year, other than saying prices will not be much different to their current levels.

"It's a tough call, depending on what you think will happen to the economy," Mr Rubinsohn says.

"I expect stronger economic growth but it's difficult to know how government cuts will feed through.

"If you believe unemployment will rise it will have a dampening effect but a spill-over may not be that severe as cuts and job losses will be spread over several years," he adds.