



Is the housing market about to recover?

Analysis

By Ian Pollock

Personal finance reporter, BBC News

The UK's property market has been through the deepest and most sudden slump in living memory.

House prices are currently down by about 20% from their peak in the summer of 2007. First-time buyers now need to put down a whopping 25% deposit if they are to get a mortgage, as lenders ration their loans even more aggressively than before.

Completed sales in the UK during February were half the level seen 12 months before, at just 42,000.

And that was, in turn, just 37% of the level recorded in February 2007, according to figures compiled by HM Revenue & Customs.

So why does anyone think things may be about to stop getting any worse?

One or two estate agents have claimed, in typically excited fashion, that things are about to pick up.

"Sales jump shows confidence is returning" shouted the National Association of Estate Agents (NAEA) last month.

And some seasoned observers agree there are reasons to be cautiously optimistic, if not actually cheerful.

"There are increasing amounts of anecdotal evidence that things are getting less bad," says Ray Boulger of the mortgage brokers John Charcol.

"We have passed the nadir in terms of activity."

Fresh interest

So, what is the evidence?



A recovery in sales and prices is probably a long way off

House price predictions 2009

Ray Boulger - down 5%

Capital Economics - down 20%

Nationwide - "prices are still going to fall"

Rics - "prices will weaken further"

“ These things may look like small beer but we are pointing in the right direction now ”

A key indicator of activity, if not prices, comes each month from the Bank of England.

Simon Rubinsohn, Rics

It adds up just how many new mortgage

loans have been agreed in principle by lenders, but not yet lent.

Known as mortgage approvals, they are widely regarded as a reliable indicator of near-term trends.

And in February they jumped to 37,0000, after hovering around the 31,000 level for the previous six months.

Meanwhile, estate agents who are members of the Royal Institution of Chartered Surveyors (Rics) reported last week that new inquiries from potential buyers had gone up for the fifth month in a row.

Simon Rubinsohn, chief economist at Rics, suggests that the increase in inquiries has filtered through into more approvals, though he believes it will be a long time before the market returns to anything resembling normality.

"I suspect inquiries will increase in the next few months - activity will build up but remain at a low level," he says.

"These things may look like small beer but we are pointing in the right direction now," he adds.

Scepticism

Plenty of other commentators are pretty sceptical that the market has reached any sort of a turning point.

"The evidence suggests activity is picking up - though some reports are overdone," says Ed Stansfield of the economic consultancy Capital Economics.

"The recovery is miniscule compared to the drop," he warns.

Sue Anderson at the Council of Mortgage Lenders (CML) is equally reluctant to suggest the market is turning.

"People are desperately looking for some "green shoots" but we are in the very cautious camp - it is all from a very low base," she says.

"There are some indicators showing a slightly more positive picture - but we would want to see months of this before being certain of a turn in the market," she adds.

Last week the CML pointed out that about two million households cannot sell and move, either because they are in negative equity, or have too little equity in their homes to provide the funds for a deposit on their next purchase.

Falling prices

Prices are the key indicator for most people and they are still falling.

According to the Nationwide Building Society, prices in the first three months of



How much further will prices fall?

the year were 4% lower than in the previous three months.

That was another large fall, but not quite as fast as seen in most of the second half of last year.

And the Halifax says prices fell by 2.7% in the past quarter, compared to falls of between 5% and 6% in each of the previous three quarters.

Neither lender is reading too much into this yet.

"There are some signs the rate of decline may be easing," says the Halifax's chief economist Martin Ellis.

"I wouldn't want to overstate it. There are some tentative signs but it's a long way from seeing prices stabilise," he adds.

His counterpart at the Nationwide, Fionnuala Earley is equally cagey.

"Prices are still going to fall this year because the economy is not in great shape," she says.

"Sales will improve but at lower levels and we may have to wait until 2010 before seeing anything significant," she adds.

Deepening recession

What is deterring any of these experts from being more optimistic is the state of the economy.

It is still shrinking fast and, crucially, unemployment is rocketing.

"The rise in unemployment is still coming through and the impact of arrears and distress sales will keep a downward pressure on prices," says Ed Stansfield.

Simon Rubensohn at Rics suggests the effect of rising dole queues may not be so dramatic, and argues that government measures are already stopping the market from being flooded by re-possessed homes.

"Government schemes to discourage reposessions are playing a role, rhetoric aimed at lenders is having the same effect, as is government ownership of several lenders," he says.

But even suggesting that things may be about to get better draws a hollow laugh from Jonathan Davis, a chartered financial planner who predicted for a long time that the housing market would implode.

He derides the idea of any imminent recovery in the midst of a recession and the worst world-wide financial crisis for 100 years.

"One and a half million extra unemployed? 25% deposits for first time buyers? Lending restrictions? - there is no way on earth the 'green shoots' mean anything," he says.

"The trend is still down, but for the odd statistical blip in occasional months," he says firmly.

Predictions

“ There is no way on earth the 'green shoots' mean anything ”

Jonathan Davis

So where are prices heading?

Even if the economy was not shrinking, prices would still be hindered by the lack of mortgage funds and the consequent choking of sales.

Several of our commentators gave up making price predictions at the end of last year, citing the inherent unpredictability of the market.

But for those bold enough to have a go, the outlook has not changed much in the past few months.

"Prices will weaken further over the next three or six months," says Simon Rubinsohn of Rics.

A few experts are happy to be more specific.

- Ray Boulger - "a fall of 5% this calendar year."
- Ed Stansfield - "down 20% this year and 10% next year."
- Jonathan Davis - "a 40% drop from September 2007 to the end of 2010 or 2011."