BBC

How low will house prices go in 2009?

Analysis
By Ian Pollock
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This past year will go down as the one in which the property market raced from boom to bust.

Recovery in house prices will be a long way off

In the autumn of 2007 prices began to fall each month as the international banking crisis took hold.

With the mortgage supply drying up, house sales have now slumped by more than half, first-time buyers have increasingly been driven from the market and the construction industry has plunged head-long into recession.

Building sites have been mothballed, thousands of workers laid off, and millions of unsold bricks are now being stockpiled around the country.

And if the surveys by the Halifax and the Nationwide are anything to go by, house prices will end this year between 15% and 20% lower than they started - easily the biggest annual slump on record.

About £30,000 has already been knocked off the selling price of the average house in the past year, and people have stopped borrowing extra cash against the now deflating value of their homes.

So what will 2009 bring? More of the same or the beginning of an upturn?

More falls to come

A year ago many experts were predicting that prices would be flat this year or might even rise a bit.

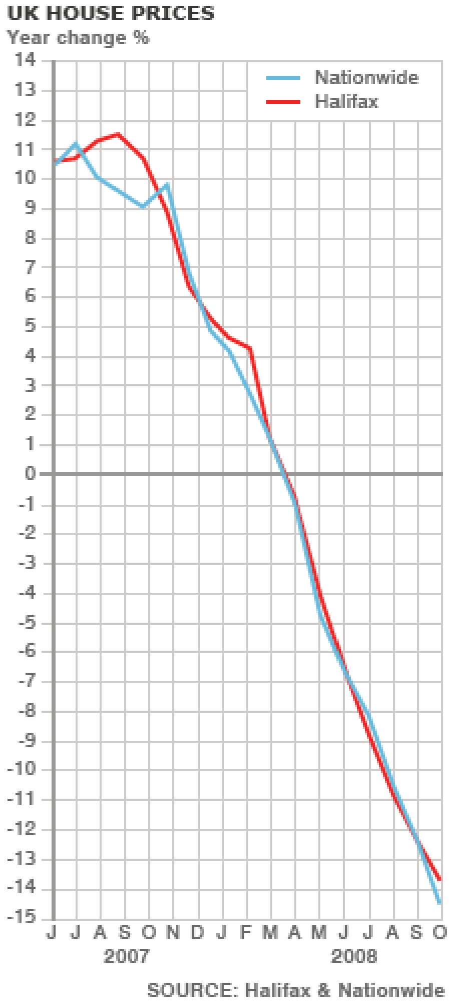
Those views were rapidly outstripped by events.

Now most commentators believe that prices will continue falling well into 2009, indeed maybe for the whole of the year.

"We will expect prices to continue to fall because of the economic conditions; you wouldn't expect the market to turnaround in those conditions", says the Nationwide's chief economist Fionnuala Earley, referring to the growing recession.

Her counterpart at the Halifax, Martin Ellis, echoes that view.

"We are comfortable with the view that there will be a 20% fall over 2008 and 2009".



So if prices fall 15% this year, will they drop by just 5% next year?

"We don't want to be too specific about next year," he replies.

Both lenders in fact will publish their formal house price predictions, with more specific figures, in the next few weeks and so will the lenders' trade body the Council of Mortgage Lenders.

It recently described making short term house price predictions in the current market as "futile".

But CML spokesman Bernard Clarke says it will stick its head above the parapet again soon.

"We are going to be publishing something before the year end but we are currently working on it," he says.

"Prices are likely to keep falling, at least in the early part of the year."

Recession

The economic downturn is one obvious factor that might help to push prices lower.

Jonathan Davis, a chartered financial planner at Armstrong Davis, says next year reality will kick in, even more than in 2008.

> **The availability of money remains restricted - which is where the key lies**
>
> Simon Rubinsohn, Rics

"Next year prices will fall by 15-20% because unemployment is kicking in, house repossessions will rise rapidly and houses will go through auctions at

previously silly prices - and banks aren't lending," he predicts.
After forecasting the end of the house price bubble for several years, his worst predictions now seem to be coming true.
"By 2010 prices will be significantly lower than the peak in late summer 2007; if they fall 15% next year then that will take us to 68% of the high point - a 32% fall," he points out.
The key factor in the slump so far has been the rapidity with which the mortgage tap has been turned off, as banks and building societies have found they simply have much less money to lend.
The industry is keeping its fingers crossed that the government's attempts to bail out the banking system, along with cuts in interest rates, will eventually see more money flow to borrowers.
"Things are very fluid - credit is still in very short supply; interest rates are coming down quite sharply; and Libor is also coming down," says Simon Rubinsohn, chief economist at the Royal Institution of Chartered Surveyors (Rics).
"So the cost of borrowing is falling, but the availability of money remains restricted - which is where the key lies."
"And in truth no-one knows when that will change," he adds.

Higher sales?

The possibility that the mortgage market may free up a bit is hinted at by the Nationwide.
It has just raised a further £1.5bn to bolster its finances by selling bonds to international investors, backed by the government's recently launched guarantee scheme for lending institutions.
Rics, which is also working on its formal forecasts for next year, points out that there are some indications that sales, if not prices, might pick up next year.
"Looking at our surveys, transaction levels do seem to be close to a floor and buyer enquiries are picking up, which is very significant, so there are potential buyers out there" says Mr Rubinsohn.
"Prices will slip in the first half of the year and maybe all next year as well, but sales may pick up over the course of 2009."
An even more optimistic view comes from Ray Boulger of the mortgage brokers John Charcol who reckons that house prices will stabilise by the middle of 2009.

HOUSE PRICE PREDICTIONS 2009
Capital Economics - "another 15-20% off prices"
CML - "to keep falling"
Halifax - "20% fall over 2008 and 2009"
housepricecrash.co.uk - "prices will fall by 15-20%"
Nationwide - "prices to continue to fall"
Ray Boulger - "prices will drift in 2009"
Rics - "prices will slip in the first half of the year"

"The significant cut in rates will have a stimulating effect because some will see this as an opportunity to buy," he says.

"Prices will drift in 2009, with the rate of decline reducing, and for the year as a whole will be broadly unchanged with a fall of 4% in the first half and a recovery of a similar amount in the second half."

"Human psychology and the desire to buy a property is out there," he believes.

Insurmountable problem

For the moment Mr Boulger is in a minority.

The leading economic consultancy Capital Economics has long predicted a big fall in house prices which, in its view, had risen far too high to be sustainable.

Its housing spokesman Ed Stansfield is not about to change his tune, and predicts more of the same in the next 12 months.

"There is not much evidence that the mortgage market is freeing up so I think we will see another 15-20% off prices in the coming year, so a one-third fall will have happened in just two years, reflecting the deterioration of the economy in the past year," he says.

"Potentially base rates coming down may spark a revival of buyer interest, but the scale of the problem is beyond the government and I don't really think there is anything it can do," he adds.

What about those efforts by the government and the Bank of England to make life a bit easier for banks and their borrowers?

"Whether sentiment can be turned round when the Chancellor and the Governor of the Bank of England are saying there is a recession on the way is debatable," he says, pointedly.